

**Quarterly Report**  
**01 October 2014 - 31 December 2014**

*Prepared by IBSER under grant*

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## Abbreviations

AFO	Association of Financial Officers of Ukraine
AUC	Association of Ukrainian Cities
CLC	Commercial Law Center
CPER	Combined Program Evaluation and Review
DHA	District Heating Assessment
EC	European Commission
ESCO	Energy Servicing Company
EU	European Union
FAF	Foreign Assistance Framework
GOU	Government of Ukraine
HCSS	Housing and Communal Services Sector
IBSER	Institute for Budgetary and Socio-Economic Research
LG	Local Government
LINC	Local Investment and National Competitiveness
MBR	Municipal Budget Reform
MFF	Municipal Finance Facility
MFSI	Municipal Finance Strengthening Initiative
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization
OSR	Own-source Revenues
PFR	Public Finance Review
PMP	Performance Monitoring Plan
PPB	Performance Program Budgeting
RTI	Research Triangle Institute
SEFR	Support for Economic and Fiscal Reform
TSA	Treasury Single Account
USG	United States Government
WB	World Bank

## Executive Summary

### *PUBLICATIONS AND REPORTS*

- MFSI-II Project analysts prepared the publication, *Budget Monitoring for January–September 2014*, drawing from the Treasury Department’s preliminary data. The document includes analyses of the latest State and local budget execution trends and relevant legislative acts approved during the reporting period.
- The Project prepared three monthly monitoring reports on the implementation of the State and local budgets for the period from August 2014 to October 2014.
- MFSI-II experts selected six cities for participation in the 4<sup>th</sup> year of the Project.
- MFSI-II experts prepared analysis of the Budget Law for the respective year.
- MFSI-II experts prepared analysis of the amendments to the Budget Code and Tax Code of Ukraine.

### *MEETINGS AND TRAINING*

- In the reporting period, experts of the MFSI-II Project completed delivering a series of regional PPB trainings based at the Zakarpattia, Kirovograd, Chernivtsi and Kyiv Regional Retraining and Qualifications Enhancement Centers.
- On 24 August 2014, experts of the MFSI-II Project took part in a USAID Field Day information fair organized in Lviv. Thanks to experts of the MFSI-II Project, visitors learned about the principles of municipal budget formation and the benefits of using the Performance Program Budgeting (PPB) method in the budget process, received professional advice on energy conservation and energy efficiency, and were familiarized with practical steps on how they could influence the formation of their municipal budget.
- On 5 September 2014, MFSI-II experts were invited by the Ministry of Regional Development, Construction, Municipal and Housing Economy to take part in a meeting held at the Cabinet of Ministers of Ukraine to coordinate the amendments to the Budget Code with regard to ESCO contracts.
- The Municipal Finance Strengthening Initiative-II Project and Ministry of Regional Development finalized the legislative amendments and took part in a Working Group meeting on 26 September 2014.
- On 29 December 2014, a meeting of the National Advisory Board (NAB) on efficient public finance management took place. In its course, participants discussed the 2014 performance outcomes in implementing the advanced methods of budgeting, including PPB, especially the formation of local budgets in the next year, and the results of IBSER activities in 2014 and plans for 2015.
- On 19 December 2014, MFSI-II experts delivered a training on budget issues for NGOs. The training was attended by representatives from 26 nongovernmental youth organizations from the city of Mykolaiv.

*DRAFT AMENDMENTS AND RECOMMENDATIONS*

- On 9 and 11 December 2014, similar legislative drafts with regard to the possibility of engaging private capital into energy-conservation activities in the public sector were registered by MPs at the Verkhovna Rada of Ukraine. There are also amendments to the Budget Code identical to the legislative draft developed with involvement of the Project. The draft laws also stipulate financial incentives to promote the establishment of an effective energy savings system in the public sector, in particular, due to enabled retaining in the budget a part of savings coming from energy-efficiency activities even before completing the settlements with a private partner under them.
- MFSI-II experts drafted amendments to the registration and accounting procedures for budget obligations of budget spending units and recipients in the State Treasury Service, and to the procedure for the preparation of financial and budget reporting by the budget spending units and recipients. All proposals were incorporated into the orders of the Ministry of Finance of Ukraine.
- To implement the government support for the PPB methodology at all the levels of local budgets, on 2 December 2014 the Ministry of Finance of Ukraine passes two orders, which accommodated the MFSI-II experts' proposals on improving the approaches to performance program budgeting (PPB) in local budgets.
  - Order No. 1194 amended to the Main Approaches to Implementation of the Performance Program Budgeting Method for Formulation and Execution of Local Budgets (the Ministry of Finance Order No. 805 dated 02 February 2010). The Ministry of Finance has determined that from 2015 a fully featured PPB in local budgets shall be applied following a decision of the respective local council.
  - Order No. 1195 approved a new program type classification of expenditures for local budgets at all the levels and a new code structure of the program classification of expenditures and crediting of local budgets. The amendments made aim to ensure unified approaches to the implementation of performance program budgeting at all the levels of local budgets.
- MFSI-II experts provided methodological and advisory support to the city of Sievierodonetsk in drafting the required resolutions of the city council and amending the municipal budgets. Experts of the MFSI-II Project assisted the city of Sievierodonetsk in obtaining approvals from the Ministry of Finance of Ukraine for issuing their local guarantees for the city's energy performance project.

## List of major activities for the next quarter

### PUBLICATIONS AND REPORTS

- MFSI-II will prepare report on the results of the monitoring and evaluation of PPB-based budget programs
- An analytical memo describing the results of surveying the municipalities that participated in the Municipal Budget Reform Project
- MFSI-II will prepare three monthly monitoring reports on the State and local budgets for the period from November 2014 to January 2015.
- By the end of the next quarter, MFSI-II experts intend to draw up a publication “*Budget Monitoring for January- December 2014.*”
- MFSI-II experts plan to prepare a publication “*Innovative Practices of the Local Finance Management*”
- MFSI-II experts will analyze 6 selected cities’ current budget expenditures on energy resources.
- MFSI-II experts will prepare a report on the number of trainings held and the number of specialists who participated in trainings with a breakdown by gender and by municipal enterprises.

### MEETINGS AND TRAININGS

- A National Advisory Board meeting is scheduled for March 2015.
- Preparation and organization of the Financial-Economic Forum in February 2015.
- MFSI-II experts and the Ministry of Finance of Ukraine will continue working together to implement PPB at the local budget level.
- MFSI-II experts will provide a topical seminar “Financial Mechanisms for Improving Energy Efficiency in the Public Sector.”

### DRAFT AMENDMENTS AND RECOMMENDATIONS

- MFSI-II will prepare proposals for improving the methods of monitoring and evaluation of local PPB-based budget programs
- MFSI-II experts will consult the staff of municipal enterprises on using the methodology for monitoring and evaluating the energy performance projects and improving the efficiency of the financial justification of strategic documents by utility enterprises.
- MFSI-II experts will participate in the development of regulations to implement the legislation (upon acceptance) on attracting private capital in energy-saving measures in the public sector, which in particular provides for financial incentives to promote the establishment of an effective energy savings system in the public sector.

## Key Milestones and Major Deliverables Summary

### **Objective A: Provide legislative, methodological and organizational support to central and local government bodies to expand PPB to all local budgets in Ukraine**

- Proposals for improving the procedure for the treasury servicing of local budgets developed  
*Timeline: October – December 2014*
- Proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for the budgets of associations of territorial communities developed  
*Timeline: October – December 2014*
- Analysis of the Budget Law for the respective year is prepared  
*Timeline: December 2014*
- Analysis of the amendments to the Budget Code and Tax Code of Ukraine  
*Timeline: December 2014*

### **Sub-objective A.1: Ensure institutional sustainability of the PPB training program(s).**

- A report on the number of trainings held and the number of participants attending the trainings with a breakdown by gender  
*Timeline: October – December 2014*

### **Objective B: Develop and introduce financial practices that foster energy efficiency in 15 selected cities.**

- Six Ukrainian cities for the year four of the Project are selected using the developed unified methodology  
*Timeline: October – December 2014*
- Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector are updated and presented at a session of the Financial and Economic Forum.  
*Timeline: October 2014 – March 2015*
- Consultations to the staff of municipal enterprises on using the methodology provided  
*Timeline: October 2014 – September 2015*
- Consultations on system implementation provided to the cities, including for development of budget programs and individual investment projects (or with regard to other mechanisms of ensuring energy efficiency in the public sector).  
*Timeline: October 2014 – September 2015*

**Objective C: Enhance public awareness of the public budgeting process, revenues and expenditures**

- Monthly monitoring of national and local budget implementations  
*Timeline: second week of every month*
- Monitoring of the fiscal impacts on local budgets in the form of a full-scale analysis of the budget process  
*Timeline: 31 December 2014*
- Preparation and organization of the National Advisory Board  
*Timeline: 29 December 2014*
- Preparation of an electronic bulletin  
*Timeline: October 2014*
- Delivery of training on budget issues for NGOs  
*Timeline: 19 December 2014*

## **Tasks and Subtasks**

***Objective A: Provide legislative, methodological and organizational support to central and local government bodies to expand PPB to all local budgets in Ukraine***

**Task 1.1: Provide assistance to the GOU (Ministry of Finance, State Treasury of Ukraine, local finance departments, key spending units, specifically) in conducting state-supported pilot programs on Performance Program Budgeting (PPB) and their implementation in local budgets in Ukraine**

***Sub-task 1.1.1: Develop and formalize a system to monitor and evaluate the execution of local budget programs for all local government functions***

IBSER developed the draft methodology for monitoring and evaluating the efficiency of budget program performance (including energy saving actions and the improvement of the natural environment). The said proposals were considered at a meeting of the NAB on 28 December 2011, which was attended by members of Parliament, experts of the Verkhovna Rada Budget Committee and other parliamentary committees, Ministry of Finance, and local governments.

The revised methodology was submitted in January 2012 to the Ministry of Finance, which forwarded the formula-based methodology developed by IBSEr to all participants of the national experiment of PPB implementation with its letter No.31-05010-14-8/4651 dated 13 February 2013.

MFSI-II experts have piloted the methodology of comparative analysis of budget programs based on reporting data of local budgets. More than 750 budget programs of oblast, raion, and city budgets executed in 2012 passed through this evaluation. The results were presented by MFSI-II experts at a joint meeting of the Interagency Working Group and the National Advisory Board on effective management of public finance, which took place on 25 June 2013.

MFSI-II experts have tested the updated methodology of comparative analysis of efficiency of budget programs based on the Zhytomyr city budget reporting data. More than 80 budget programs, which were implemented in 2013, have gone through the evaluation. The testing results have made it possible to prepare new proposals for improving the methodology of comparative analysis of efficiency of budget programs.

During the fourth year of implementation, MFSI-II will conduct a comparative efficiency analysis of budget programs based on the reporting data of local budgets. Based on the results of the conducted work, proposals will be prepared to improve the methodology of comparative efficiency analysis of budget programs.

***Deliverable: A report on the results of the monitoring and evaluation of the performance of PPB-based budget programs***

***Timeline: March 2015***

***Deliverable: Proposals for improving the methods of monitoring and evaluation of performance of local PPB-based budget programs***

***Timeline: January – March 2015***



***Sub-task 1.1.2: Complete the legislative, regulatory and methodological framework taking into account the specifics of PPB implementation at various levels of local budgeting***

In 2011-2013, the Government of Ukraine reviewed proposals prepared by MFSI-II experts for amending the principal regulatory act, which regulates the use of PPB methodology at the local level. These proposals are reflected in amendments to the Ministry of Finance (MOF) Order No. 679 “On Certain Issues of Conducting an Experiment of Implementation of the Performance Program Budgeting Method of Formulation and Execution of Local Budgets” dated 8 June 2012 and that dated 26 November 2012 No.1221, as registered with the Ministry of Justice of Ukraine.

MFSI-II experts have prepared and submitted to MOF the amendments to MOF Order of 14 February 2012 No. 97 “On Approving the Structure of the Code of Program Classification of Expenditures and Crediting of Local Budgets and the Codifier of Numbering of Standard Lists of Local Budget Programs.” The amendments were approved by MOF orders No.1249 of 4 October 2011, No.1101 of 15 October 2012, and No.1386 of 20 December 2012.

MFSI-II experts have reviewed the existing regulatory and legislative framework required for PPB implementation in local budgets and prepared proposals for its improvement. These proposals were submitted for consideration of the participants in the meeting of the National Advisory Board (NAB) on effective public finance management, which was held on 4 October 2013. The participants have supported every proposal made by the MFSI-II Project.

Amendments have been enacted to the standard lists of budget programs and performance indicators for the delegated functions in the Departments of Public Administration, Social Protection and Social Security, Social Protection of Family and Children, and Physical Culture and Sport, as well as similar provisions for the disbursement of expenditures for the implementation of own functions of local budgets. These amendments have been approved by orders of the Ministry of Finance and line ministries (No.1116/673 of 24 October 2012; No. 1060/630 of 8 October 2012; No.1202/1291 of 19 November 2012; No. 1035 of 27 September 2012; and No.35/41 of 22 January 2013). In addition, the experts provided their proposals to modify the standard lists of budget programs and the performance indicators for the expenditures in the departments of youth and culture. The issued orders incorporate all the proposals made by MFSI-II experts with regard to reducing the number of budget programs and their performance indicators.

MFSI-II experts developed a standard program classification of expenditures and crediting of local budgets and a comparative table of its correspondence to the existing provisional classification of expenditures and crediting of local budgets. New approaches to program classification of local budgets were approved at a joint meeting of the Task Force on Interbudgetary Relations Reform and the National Advisory Board on Effective Management of Public Finance, held on 25 June 2013. The meeting participants recommended modifications to all documents used in the budget process. The amendments were approved by the MOF order No.705 of 26 July 2013.

Experts of the MFSI-II Project suggested a full-scale implementation of THE PPB methodology when formulating the budget programs aimed at improving the environmental situation in the regions and health of the population. To this end, the MFSI-II experts developed performance indicators which will evaluate the impact of budget programs on atmospheric air, water resources, green plantations, forestry, land reclamation, conservation of the natural and reserve fund, health of the population, etc. These indicators were discussed on 4 October 2013 at a meeting of the National Advisory Board (NAB) on efficient public finance management, were further reviewed by the Interagency Working Group, and later entered into a supervised directive of the Ministry of Finance.

The key vectors of further work were reviewed on 6 June 2014, at a meeting of the National Advisory Board on efficient public finance management. Also, discussed at the meeting were the proposals of MFSI-II experts with regard to amending the key document of PPB for local budgets, i.e., Order of the Ministry of Finance of Ukraine No. 679 dated 9 July 2010. The meeting participants agreed with the developed materials and noted that the proposals made by MFSI-II experts are formulated with due

account for special features of execution of local budgets at different levels, as well as possibilities of the transition to a fully-fledged implementation of PPB planning and execution of local budgets at all levels.

In order to bring into life the State support of the PPB methodology for all oblast, district and oblast-significant municipal budgets, IBSER will:

- assist in developing proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for the budgets of associations of territorial communities, which will be established according to the legislation.
- help Ministry of Finance of Ukraine develop proposals that amend the regulatory and legislative framework, as needed to complete PPB implementation for lower-level spending units and recipients of budget funds.
- prepare draft amendments to the joint orders of MOF and line ministries that approve the standard lists of budget programs and their performance indicators for all functions of local budgets.

*Deliverable: Proposals that amend the regulatory and legislative framework, as needed to complete PPB implementation for the budgets of associations of territorial communities, which will be established according to the legislation, developed*

*Timeline: October – December 2014*

In order to implement the government support for the PPB methodology at all levels of local budgets, on 2 December 2014 the Ministry of Finance of Ukraine passes two orders, which accommodated the MFSI-II experts' proposals on improving the approaches to performance program budgeting (PPB) in local budgets.

Order No. 1194 amended to the Main Approaches to Implementation of the Performance Program Budgeting Method for the Formulation and Execution of Local Budgets (the Ministry of Finance Order No. 805 dated 02 February 2010). The Ministry of Finance has determined that from 2015 a fully featured PPB in local budgets shall be applied following a decision of the respective local council. In other words, next year the PPB-based formulation and execution of local budgets will turn from a pilot to the main method of budgeting only in those local budgets, where a respective decision is made by the local councils, as regulated by the Budget Code of Ukraine.

Order No. 1195 approved a new sample program classification of expenditures for local budgets at all levels and a new code structure of the program classification of expenditures and crediting of local budgets. The amendments made aim to ensure unified approaches to the implementation of performance program budgeting at all the levels of local budgets. This will ensure reliable reporting on the execution of budgets of all the levels and contribute to higher transparency in the budget process as a whole.

See folder "Deliverables."

*Deliverable: Proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for lower-level spending units and recipients of budget funds developed*

*Timeline: January – September 2015*

*Deliverables: Draft amendments to joint orders of the Ministry of Finance and line ministries that approve standard lists of budget programs and their performance indicators (if needed)*

*Timeline: October – December 2014 and April – June 2015*

As of now, the work on drafting amendments to the standard lists of budget programs and their performance indicators was suspended by the Ministry of Finance of Ukraine.

***Sub-task 1.1.3: Develop formats and procedures for treasury-based services of local budgets to improve the budget software used by the State Treasury; field-test these products within the local governments that have been a part of the pilot program***

During the first-third years of Project implementation, the MFSI-II experts reviewed the existing reporting forms on execution of local budgets, which are compiled by the State Treasury of Ukraine. The analysis has shown that these reports need amending in the context of PPB budgeting, namely: it is necessary to take into account the special circumstances of execution of local budgets using the codes of program classification of expenditures and crediting of local budgets.

The special features in generation of reports according to PPB were brought for consideration of the members of the National Advisory Board on efficient public finance management and approved at the meeting of 27 April 2012. Based on the results of this work, the IBSER proposals for improving the reporting forms on execution of local budgets, which are compiled by the State Treasury Service of Ukraine, have been developed and submitted to the Ministry of Finance of Ukraine.

The proposals of MFSI-II experts were incorporated into the modified forms of financial and budget reports on execution of local budgets approved by Order No. 14 of the Ministry of Finance of Ukraine dated 16 January 2013.

The Order of the Ministry of Finance No. 1126 dated 25 November 2012 “On Amending the Order of the Ministry of Finance of Ukraine No. 60 of 30 January 2012” approved amendments to the forms of budget reports on execution of local budgets, which incorporate the proposals made by MFSI-II experts with regard to improving the existing reporting forms on execution of local budgets.

MFSI-II experts completed the work on improving the unified financial and budgetary reporting forms on execution of local budgets, which are compiled by the State Treasury Service of Ukraine.

This issue was discussed at a meeting of the National Advisory Board on efficient public finance management on 6 June 2014.

To implement the decision of the National Advisory Board, the MFSI-II experts finalized the budget reporting forms on execution of local budgets and prepared their proposals for making the appropriate amendments. The proposals take into account special features of execution of local budgets of different levels using the codes of program classification of expenditures and crediting of local budgets, as well as the standard program classification of expenditures and crediting of local budgets / provisional classification of expenditures and crediting of local budgets that do not use PPB.

The proposed amendments provide for assuring common approaches to the formation of reports on execution of local budgets at all levels.

The proposals have been submitted to the Ministry of Finance of Ukraine.

IBSER will provide technical support for improving the formats and procedures of treasure servicing of local budgets. It will support the implementation of the preparatory work needed for introducing the generation of reports on the execution of local budgets based on the codes of program classification of expenditures and crediting of local budgets.

Within the fourth year of implementation, should amendments be made to the PPB methodology for local budgets, IBSER shall:

- prepare proposals for improving the procedures for the treasury servicing of local budgets. It will submit proposals with regard to such amendments to the legislative framework that defines the Treasury’s functions.

- develop proposals for the requirements specification to improve the budget software used by the State Treasury and assist with its field-testing after installation in the pilot regions.

*Deliverables: The proposals for improving the procedure for the treasury servicing of local budgets developed. The proposals with regard to amendments to the legislative framework, which defines Treasury functions developed (if needed)*

*Timeline: October – December 2014*

MFSI-II experts completed the work on improving the regulatory and legal framework to improve the procedures for treasury services focused on the PPB-based local budgets.

In the reporting quarter, thanks to the work of the Treasury specialists, amendments were drawn up for the registration and accounting procedure for budget obligations of the budget spending units and recipients with the State Treasury Service, and to the procedure for preparation of financial statements and budget reporting by the budget spending units and recipients. The MFSI-II experts submitted proposed amendments to these documents; the possibility of transition to a fully functional PPB was considered. All proposals were incorporated in the orders of the Ministry of Finance of Ukraine.

During Project implementation, the MFSI-II experts elaborated almost all regulations governing the treasury services for local budgets and preparation of the budget execution reporting. As a result, proposed amendments to the relevant documents were submitted to the State Treasury Service. So, the proposals prepared by the MFSI-II experts were included in the amendments to the following orders of the Ministry of Finance:

- Order No. 938 dated 23 August 2012 “On Approval of the Procedure for Treasury Services to Local Budgets;”
- Order No. 60 dated 30 January 2012 “On Organization of the Local Budget Performance Reporting by the State Treasury Service of Ukraine;”
- Order No. 44 dated 24 January 2012 “On Approval of the Procedure for the Preparation of Financial Statements and Budget Reporting by Budget Spending Units and Recipients;”
- Order No. 309 dated 02 March 2012 “On Approval of the Procedure for the Registration and Accounting of Budget Obligations of Budget Spending Units and Recipients with Bodies of the State Treasury Service of Ukraine.”

The proposed changes were meant to provide for unified approaches for the treasury execution of local budgets and form transparent and reliable consolidated statements in the event of implementation of performance program budgeting in terms of formulation and execution of local budgets.

Currently, there is no need to make additional amendments to the legal framework that defines the functions of the Treasury.

See folder “Deliverables.”

*Deliverables: Proposals for the specification to improve the budget software used by the State Treasury developed*

*Timeline: January – June 2015*

#### ***Sub-task 1.1.4: Prepare and disseminate a PPB handbook***

In 2011, MFSI-II experts prepared a *Modern Tools of Financial Planning* handbook, which contains the training, normative, and methodological materials needed for learning the methods and applying the practices of local budget planning based on Performance Program Budgeting. The methodology of financial justification of strategic documents and principles of financial analysis of investment projects are provided.

In 2011-2013, MFSI-II experts prepared and updated 4 versions of the *Planning of Local Budgets Based on the Performance Program Budgeting Method* handbook, which contains the training, normative, and methodological materials required for studying the methods and applying the practices of local budget planning based on the Performance Program Budgeting method. This handbook reflects all the latest changes in the PPB legislation.

An electronic version of this handbook has been prepared for ease of use. Its use will help improve the knowledge of local-level specialists about the modern tools of financial planning. The electronic version of this handbook will be disseminated during PPB trainings for local offices of the State Treasury and local finance departments.

Should any significant changes be made in the methodological framework of Performance Program Budgeting for local budgets, this publication will be amended accordingly. An updated version of the *Planning of Local Budgets Based on the Performance Program Budgeting Method* handbook will be posted on the IBSER website and disseminated during PPB trainings.

*Deliverable:* *The PPB Handbook updated in view of changes in the legislation (if needed), disseminated, and published on the website*

*Timeline:* *October – December 2014 and July – September 2015*

There were no significant changes in the PPB legislation, which is why it wasn't necessary to publish an updated revision of the *Planning of Local Budgets Based on the Performance Program Budgeting Method* handbook.

#### ***Sub-task 1.1.5: Assess the need for additional PPB training in those municipalities that participated previously in the Municipal Budget Reform Project***

80 Ukrainian cities participated in the Municipal Budget Reform Project. According to the MOF Order No. 805 of 2 August 2010 "On Approving the Main Approaches to Implementation of the Performance Program Budgeting Method of Formulation and Execution of Local Budgets," all oblast-subordinated Ukrainian cities should take part in the State experiment of PPB implementation. MFSI-II experts have delivered training and provided PPB consultations for these cities. All oblast-subordinated cities have been preparing their budgets in the PPB format on an experimental basis since 2011.

The participants of the Municipal Budget Reform Project only included six raion-subordinated cities, which are not participating in the experiment at this time. These are Trostyanets', Borshchiv, Buchach, Kivertsi, Kaharlyk, and Skvyra. To examine the status of PPB implementation and their willingness to collaborate, IBSER has prepared and sent out questionnaires to these cities.

MFSI-II experts have analyzed the data of the questionnaires returned by the cities participating in the Municipal Budget Reform Project. The representatives of the towns Trostyanets' and Buchach expressed their wish to learn more about the PPB methodology and take part in the trainings. IBSER forwarded methodological materials to these cities and is working with the municipal leaders to agree on the training dates.



Within the fourth year of implementation, IBSER will develop a questionnaire and conduct an analytical survey of the municipalities that participated in the Municipal Budget Reform Project, which will then be used for assessing the status of using the PPB methodology and the need for conducting special PPB training sessions for such municipalities (will be conducted within Sub-task 1.1.6).

*Deliverable: An analytical memo describing the results of surveying the municipalities that participated in the Municipal Budget Reform Project*

*Timeline: January – March 2015*

*Deliverable: Special trainings for the municipalities that participated in the Municipal Budget Reform Project (if needed)*

*Timeline: April – June 2015*

***Sub-task 1.1.6: Train at least 8,000 budget officers from local finance departments, key spending units, as well as territorial departments of the Treasury***

In order to efficiently implement PPB at the local level, it is necessary to advance the qualifications of the personnel of local finance departments, the specialists of budget spending units and recipients, as well as of the representatives of regional and local offices of the State Treasury. Thus, since the Project launch, MFSI-II experts have conducted a series of similar PPB trainings. Such trainings were delivered in all oblast capitals for specialists of each region. Overall, 6,735 local-level specialists (not taking into account studies under Sub-task A.1) passed this training, including 5,911 women and 824 men.

Also, a number of legislative initiatives aimed at changing the budget system are currently proposed in Ukraine. Quite often, people in the regions do not understand, and therefore, do not accept the proposed changes. This, primarily, is indicative of a very poor level of outreach with local governments in communicating the key provisions of the developed changes. Therefore, should such a need arise, MFSI-II will assist the Ministry of Finance in arranging for clarification of provisions of the new legislation and conduct the relevant trainings for local government officials.

At the regional level, during the fourth year of MFSI-II project implementation, IBSER will deliver a series of cluster trainings, which will cover more than 2,000 local-level specialists.

*Deliverable: Report on the number of trainings held and the number of participants attending the trainings with a breakdown by gender*

*Timeline: October – December 2014 and April – June 2015*

To date, the Ministry of Finance of Ukraine has not approved the schedule of trainings and has not identified trainees as part of them. In the reporting quarter, the PPB trainings were held at the retraining and qualifications enhancement centers under Sub-objective A.1.

***Sub-task 1.1.8: Provide advisory to those local governments that have not been involved in the PPB pilot project***

During the first–third years, IBSER developed the current local network of consultants who will help introduce PPB budgeting and will facilitate coordination between participants in the process. To implement the tasks of the fourth year of implementation, the consultants will collect, summarize, and submit for the Ministry of Finance’s consideration the most important issues and promote the

dissemination of recommendations on their resolution in the regions. To facilitate experience sharing among all the participants in the experiment and analyzing the progress of implementation of PPB, information from all the regions will be collected and processed on an ongoing basis. Best practices in PPB implementation will be highlighted on the IBSER website and in print publications.

IBSER will continue supporting the website column “Topical PPB Questions: Answered by Experts,” where visitors will be able to receive answers to their questions through interactive communication.

*Deliverable: An annual experiment progress report*

*Timeline: March 2015*

*Result/Deliverable: Running a column called “Topical Questions on PPB: Answered by Experts” on the IBSER website*

*Timeline: on-going, monthly*

A new set of PPB-related questions (11 for the reported period) with experts’ answers has been placed on the site. In total, 200 answers to PPB-related questions have been prepared and posted on the website since the launch of the MFSI-II Project. They are regularly updated and relate to special circumstances of applying the Performance Program Budgeting methodology at the level of local budgets: providing clarifications with regard to the rules and procedures of filling out budget requests, compiling passports of budget programs, using the Codifier of Budget Programs, and conducting a comparative analysis of the performance efficiency of budget programs.

See folder “Deliverables.”

## **Task 1.2: Review the legislation and analyze the execution of the State and local budgets of Ukraine. Provide support to operations of Interagency Working Group**

### ***Sub-task 1.2.1: Advisory support to the Interagency working group in finalizing the methodology, and the laws and regulations needed***

- IBSER will provide organizational support to the Ministry of Finance's Interagency Working Group by organizing meetings and developing the relevant recommendations regarding PPB methodology implementation.

In 2011-2014, experts of the MFSI-II Project took part in fourteen meetings of the Interagency Working Group. The participants were considering the issues of amending the PPB methodology and in particular:

- improving the standard lists of budget programs and amending the relevant regulations;
- improving the Codifier of Budget Programs, and building a transitional table from the Provisional Classification of Expenditures and Crediting of Local Budgets to the program classification of local budgets;
- approving budget programs by the participants of the PPB experiment;
- discussing the proposals of MFSI-II experts with regard to the topical issues of improving the treasury servicing of PPB-based budgets;
- setting out the ways for speeding up the work on improving the software, which would allow automating the PPB-based planning of local budgets;
- focusing on the topical issues of improving the treasury servicing of PPB-based budgets;

- reviewing the outcome of piloting the methodology of comparative analysis of budget program performance and ways of its improvement;
- discussing progress in the experiment on introduction of Performance Program Budgeting method components.

*Result: Meetings of the working group will be held on a regular basis*

*Deliverable: Developed recommendations*

*Timeline: November 2014, February 2015, May 2015, September 2015*

The Ministry of Finance of Ukraine suspended the Interagency Working Group, where the issues of amending the PPB methodology were considered.

***Sub-task 1.2.2: Help local governments assess draft laws affecting their revenues and resource allocation including the State Budget Bill to identify and mitigate potential risks for local development***

To implement this task, IBSER will analyze:

- the Budget Declaration for 2016;
- provisions of the draft legislation aimed at amending the revenue base of local governments;
- the Budget Law for the respective year;
- changes to the Budget Law for the respective year, with suggestions incorporated in the Law (if such changes are approved by the Verkhovna Rada);
- changes to the Tax Code, land laws, and other laws related to local budgets, which could affect their revenues and resources.

*Result An analysis of the Budget Declaration for the next year is prepared and suggestions to the document are accepted and incorporated into the document*

*Timeline: April – June 2015*

*Deliverable: An analysis of provisions of the draft legislation aimed at amending revenue base of local governments*

*Timeline: Ongoing process*

*Result: Performance of an analysis of the Budget Law for the respective year is prepared*

*Deliverable: Analysis of the Budget Law for the respective year*

*Timeline: December 2014*

On 31 December 2015, the President of Ukraine signed the Law of Ukraine “On State Budget of Ukraine for 2015” adopted by the Verkhovna Rada of Ukraine on 28 December 2014. The main parameters of the State Budget for the 2014-2015 are given in Table 1.



**Table 1**
**The main parameters of the State Budget for the 2014-2015**

UAH bln.

	2014 revised plan	2014 executed as of 30.11.2014	Percent of execution	2015 plan	Deviations of 2015 plan from revised plan for 2014	
					+/-	%%
<b>REVENUES</b>	<b>382.3</b>	<b>319.1</b>	<b>83.5</b>	<b>475.9</b>	<b>93.6</b>	<b>24.5</b>
reverse (revenue-decreasing) subsidy (withdrawals in 2014)	2.2	1.9	86.4	3.6	1.4	65.6
<b>Total revenues (without interbudgetary transfers)</b>	<b>380.1</b>	<b>317.2</b>	<b>83.4</b>	<b>472.3</b>	<b>92.2</b>	<b>24.3</b>
<b>EXPENDITURES</b>	<b>467.9</b>	<b>378.3</b>	<b>80.9</b>	<b>527.9</b>	<b>60.0</b>	<b>12.8</b>
development expenditures	36.7	x	x	41.8	5.1	13.9
Pension Fund of Ukraine	81.7	69.5	85.1	80.9	-0.9	-1.1
intergovernmental transfers	136.8	117.1	85.6	163.6	26.8	19.6
<b>total expenditures (without interbudgetary transfers)</b>	<b>331.1</b>	<b>261.2</b>	<b>78.9</b>	<b>364.3</b>	<b>33.2</b>	<b>10.0</b>
<b>LENDING</b>	<b>5.1</b>	<b>3.0</b>	<b>59.0</b>	<b>11.7</b>	<b>6.6</b>	<b>129.8</b>
extension of loans	8.5	4.8	55.8	15.7	7.2	84.3
repayment of loans	3.4	1.8	51.2	4.0	0.6	16.9
<b>DEFICIT</b>	<b>68.6</b>	<b>62.3</b>	<b>90.8</b>	<b>63.7</b>	<b>-4.9</b>	<b>-7.1</b>
borrowing	290.9	261.2	89.8	293.8	2.9	1.0
repayment	109.1	90.9	83.2	158.9	49.7	45.6
proceeds from privatization of state-owned property	17.0	0.1	0.4	17.0		

The basis for calculation of the budget is the projected **nominal GDP** for 2015 in an amount of UAH 1,720.8 billion. Moreover, as stated in the Explanatory Note to the draft Law of Ukraine “On State Budget of Ukraine for 2015” (hereinafter – the “Explanatory Note”), this figure presents a conservative scenario, which is taken as a basis for the State Budget indicators. This figure is 12.9% higher than the expected figure for 2014<sup>1</sup>.

The growth rate of the above nominal GDP for 2015 is more than twice higher than the figure for the current year (12.9% versus 5.6%).

**The Consumer Price Index** is projected at 13.1%.

According to the Explanatory Note, revenues **of the consolidated budget** are defined in an amount of UAH 575.8 billion, that is UAH 101.7 billion, or 21.5% more than the amount of revenues approved for 2014 (as amended). Revenues **of the State Budget** are defined in an amount of UAH 475.9 billion, that is UAH 93.6 billion, or 24.5%, more than the amount of revenues approved for 2014<sup>2</sup>.

<sup>1</sup> This figure is slightly higher than that found in the consensus forecast made in September of the current year, which amounts to UAH 1.5169 bln. (<http://www.me.gov.ua/Documents/List?lang=uk-UA&tag=Konsensus-prognoz>)

<sup>2</sup> According to the data of the State Treasury of Ukraine (<http://treasury.gov.ua/main/uk/publish/article/241878>)

Such indicator as a share of GDP redistribution through the consolidated budget will be increased, respectively – from 28.7%<sup>3</sup> in 2014 to 33.5%<sup>4</sup> in the following year. The main explanation for this increase of fiscal pressure on the economy is a package of amendments to the Tax Code of Ukraine, which provides for substantial changes virtually to all components of the tax system.

**Expenditures of the State Budget** are defined in an amount of UAH 527.9 billion, that is UAH 86.3 billion, or 19.5%, more than the volume of expenditures approved for 2014 (as amended). Development expenditures were increased compared to the plan for 2014 by UAH 5.1 billion, or nearly 14.0%, compared to the previous year approved indicator. The expenditures of the Ministry of Health of Ukraine have increased significantly (by UAH 48.0 billion, or sixfold), as well as those of the Ministry of Education and Science of Ukraine (by UAH 48.9 billion, or threefold). The above is due to the fact that according to the Law of Ukraine “On Amending the Budget Code of Ukraine” (concerning the reform of interbudgetary relations) No. 1557 dated 01 January 2015, new types of transfers were implemented, such as education and health government grants, grants for training labor, grants for healthcare activities under certain national programs and comprehensive activities that are programmatic in nature. Until now, the above expenditures used to be taken into account when calculating equalization grants funded through the Ministry of Finance of Ukraine.

Debt service expenditures increased by UAH 38.0 billion or twice as compared to the approved indicator for 2014. Expenditures of the Ministry of Defense of Ukraine increased by UAH 25.1 billion, or 2.6 times, the Ministry of Internal Affairs of Ukraine – by UAH 14.8 billion, or 1.8 times.

Compared to 2014, the shares of expenditures decreased as follows: social protection and social security by -3.0 pp., economic activity by -2.2 pp., education and general functions by -1.4 pp. and by -1.3 pp., respectively. The shares of expenditures on defense increased significantly to 8.4%, or by 3.0 pp., interbudgetary transfers to 31.0% or by 2.4 pp. The shares of expenditures on civil order, security and judiciary increased to 9.3% or 0.7 pp., on utilities to 0.2% or 0.1 pp.

**The deficit of the State Budget** is UAH 63.7 billion or 3.7% GDP (significantly lower than the planned 5.8% for 2014). This figure is by UAH 24.8 billion or 28.0% less than the planned deficit for 2014 (planned amount of the deficit for 2014 compared with 2013 is increased by UAH 23.8 billion, or 36.8%). At the same time, as in previous years, it is expected to allocate a portion of government domestic loan bonds (GDLB) (UAH 88.0 or 5.1% of GDP) to the purchase of securities of banks, the Deposit Guarantee Fund, “Naftogaz of Ukraine” (similar figure, planned for 2014, is UAH 111.9 billion or 7.3% GDP).

Compared with the planned annual indicators for 2014, the expected amount of borrowings is expected to remain almost unchanged (with an increase of 1.0% only). The amount of debt repayment goes up significantly: by UAH 49.8 billion or 45.6%, which is explained by increased external debt payments, particularly due to the fall in the value of Hryvnia against the US dollar and Euro. The positive is that due to the above a gap between the amount of borrowings and debt repayment is decreased by 25.8% or to UAH 134.9 billion,

<sup>3</sup> This figure is calculated based on the annual plan decreased by the amount of budget non-execution promulgated by the State Treasury.

<sup>4</sup> According to data of the annual plan for 2014 (as amended)

<sup>5</sup> At that, the national debt limit (ceiling), which was formed at the end of November 2014, is accounted for almost a similar share of GDP expected for 2014.

<sup>6</sup> Education grants for maintenance of general secondary education schools and grant for labor training. Expense for pre-school and out-of-school education will be made out of own proceeds of local budgets and basic grants.

<sup>7</sup> Certain differences in the allocation are associated with considering some specific costs and adjusting factors.

As in 2014, the deficit of the general fund budget in 2015 will exceed the planned development expenditures of the general fund budget. At the same time, such excess is significantly reduced, thus in 2015 it is planned to allocate 31.2% of the total amount of **borrowed funds and proceeds from privatization** to the general fund (UAH 15.5 billion) to consumption expenditures. Whereas in 2014 this figure was 61.7% (UAH 36.3 billion), and according to actual data for the first 9 months of 2014 it was 53.6%.

**Proceeds from privatization** are estimated at the level of the plan for 2014 – UAH 17.0 billion, which bears a budget risk. The above is due to the fact that actually UAH 0.1 billion was received for the 11 months of 2014 to the State Budget (in 2013 the plan for this figure was performed by 10.2%; in 2012 – 67.6%; in 2011 the plan was exceeded by 14.8% due to the sale of “Ukrtelecom” and in 2010 the performance level was 17.2%).

**The maximum (ceiling) public debt** was determined in an amount of UAH 1,176.1 billion, which is 68.3% of GDP, while the Budget Code sets out this ceiling at 60.0% of GDP<sup>5</sup>. According to the amendments to the Budget Code of Ukraine adopted on 28 December 2014, the Cabinet of Ministers of Ukraine should immediately apply to the Verkhovna Rada of Ukraine for permit a temporary excess of this threshold (ceiling) and submit an action plan for approval to adjust the total public debt and government-guaranteed debt in correspondence with the specified requirements.

In addition, Articles 16-18 gave the Cabinet of Ministers of Ukraine the right to issue domestic government bonds if necessary in excess of the amount established in Annex 2 to the Law, with subsequent acquisition in the state ownership, in exchange for bonds, shares of additional issues of banks, bills issued by the Deposit Guarantee Fund, and shares of additional issues of economic partnerships of the fuel and energy sector, whose 100% of shares are owned by the state, with a corresponding adjustment of the limit of public debt, as defined by the Law. The above will result in an even higher limit (ceiling) of debt and a greater debt burden on the budget in future years.

According to the recent amendments to the Budget Code of Ukraine (Law of Ukraine No. 79-VIII dated 28 December 2014 “On Amending the Budget Code of Ukraine with Regard to the Reform of Interbudgetary Relations”), **a new framework of local budgets equalization** was implemented, based on which the indicators of the State Budget for 2015 were approved.

The main difference in the new framework of equalization is cancelation (withdrawal) of equalization grants and introduction of the basic (reverse) grant and series of subventions for full current maintenance of all healthcare facilities belonging to the delegated powers and individual educational institutions<sup>6</sup>. Interbudgetary relations are laid down in the Law of Ukraine “On the State Budget of Ukraine for 2015,” including these amendments.

The total amount of **interbudgetary transfers**, provided from the State Budget to local budgets, compared with 2014 is increased by 30.9% and determined almost in an amount of UAH 163.6 billion. At the same time, capital subventions are reduced by 72.2% to UAH 0.9 billion.

The interbudgetary transfers largest by the amount that are provided from the State of Budget to local budgets become health and education grants: UAH 46.5 billion and UAH 43.7 billion, respectively. The Law of Ukraine “On the State Budget of Ukraine for 2015” approved allocation formulas for grants between local budgets and determined the amount of financing for all local budgets that have direct relationships with the State Budget. Analysis of these formulas shows that the approaches to allocating the corresponding expenditures to education and health, which were in force in 2014, have been taken as a basis<sup>7</sup>, when calculating equalization grants.

A basic grant is approved in an amount of UAH 5.3 billion. Its allocation is defined according to the indices of taxpaying capacity of the territories and approved amounts for all local budgets that have direct relationships with the State Budget. It is not intended for targeted use and can be used by local governments to finance any delegated powers.

When comparing the resource that is transferred from the State Budget to local budgets for funding delegated powers, a significant growth by 67.6% more than planned for 2014 is observed. In 2015 this resource is UAH 101.4 billion. The net transfer is increased by UAH 39.2 billion, or by 67.1%.

As a generalizing principal characteristic of the Law regarding the relationships of the State Budget with local budgets can be noted the transition to the new framework of equalization and significant social orientation of all transfers. At the same time, despite a significant increase in transfers, a disproportion in funding delegated authorities can arise and this will require revision of the budget indicators laid down by the results of budget execution in the first quarter of 2015.

See folder “Deliverables”

*Result: An analysis of the Changes to the Budget Law for the respective year is prepared and the suggestions to it are incorporated in the Law (in case such changes are brought for consideration of the Verkhovna Rada of Ukraine)*

*Deliverable: An analysis of the changes to the Budget Law*

*Timeline: Depending on the date of law adoption*

*Deliverable: An analysis of the Changes to the Tax Code, land laws, and other laws related to local budgets, which could affect their revenues and resources, prepared*

*Timeline: Depending on the date of law adoption*

On 28 December 2014 the Verkhovna Rada of Ukraine passed Law of Ukraine “On Amending the Budget Code of Ukraine with Regard to the Reform of Interbudgetary Relations” No. 79-VIII. This Law incorporates the proposals of MFSI-II experts and in particular:

**1) The barriers to timely and full execution of debt service obligations by cities have been removed.** Now protected budget expenditures include local debt service costs. The above will allow the cities to make such expenditures in a timely fashion, guarantee the impossibility of its unjustified cuts during the budget period. These amendments will provide greater protection for creditors and increase their confidence in the borrowing cities, which will enhance their creditworthiness.

**2) Mayors of the cities of regional significance are delegated the powers to execute functions of a local financial authority.** This is connected with the fact that the financial authorities shall not be created in the cities of regional significance. Henceforth, the issue of such powers of a mayor of city of regional significance will be regulated at the legislation level as: depositing temporary free funds of local budgets or acquiring government securities; making the local borrowing; analyzing the budget request from the key spending unit and making a decision on its inclusion in the proposed draft local budget; forecast and analysis of the revenues of city budgets during its execution; approval of local budget implementation sheet and its execution under the budget implementation sheet.

**3) Transparency of budget execution is improved and efficiency and effectiveness of using the available budgetary resources is increased.**

The Law provides for strengthening the accountability of key spending units as related to formation of budget programs. In particular, the key spending units will be responsible for the timely approval of

budget program IDs, the reliability and completeness of the information contained therein. Also the key spending units shall be responsible for introducing the forms of internal (management) accounts for gathering information required to confirm the performance indicators of budget programs. These changes will enable transition to budget planning of higher quality and improve the efficiency of the uses of budget funds.

The annual public presentation and publication of information on budget by budget programs and performance indicators have been regulated, as well as the publication of budget program IDs for the current budget period and statements of IDs execution for the reporting budget period. Such provisions would significantly improve the transparency of budget and provide an opportunity for public oversight of efficient use of budget resources.

In addition, the Law establishes that the performance program budgeting method in the budget process at the level of local budgets that have relationships with the State Budget shall be applied beginning from drafting local budgets for 2017. At the same time, this provision sets forth that PPB shall be applied to the budgets of combined communities created under the law and perspective plan of forming the community areas. This is a new category of budgets that will be newly created and have their own characteristics, which are not included in the existing PPB methodology.

MFSI-II experts carried out also an analysis of all major amendments made to the Budget Code.

See folder “Deliverables.”

On 28 December 2014, the Verkhovna Rada of Ukraine adopted Law of Ukraine “On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Tax Reform” No. 71-VIII. Accordingly, the main amendments to the tax laws are the following:

***Income tax:***

The amount of tax liability on income tax shall be determined by the financial result adjusted for the tax differences, which number is significantly reduced. Moreover, the full use of accounting (i.e., excluding tax differences) is provided for the taxpayers who have an income less than UAH 20 million per year. Accordingly, the regulatory authorities have the right to check the accuracy of record-keeping and determination of financial result in accordance with the appropriate standards.

In terms of the practice of tax law application, a norm that involves no penalties imposed by the results of audits of income tax returns for 2015 is quite liberal.

An income tax return, beginning from the tax returns for 2015 shall be submitted by June 1.

The tax rate, as before, is 18%. In the future, the system of making tax advance payments will operate.

***Value added tax:***

The changes with regard to VAT deal mainly with the procedural issues of its administration (including so-called electronic VAT administration).

In particular:

- the threshold for compulsory VAT registration increased from UAH 300 thousand to UAH 1 million;
- the deadline for inclusion of tax invoices to the tax credit is shortened up to 180 days;
- exports of grain crops are exempted from taxation;
- the tax exemption regime for the supply of waste and scrap of ferrous and non-ferrous metals is extended;
- VAT payers will have the right to declare a negative tax value to be refunded from the budget in the month of receipt of such negative value (not the following month, as previously).



The introduction of electronic VAT administration using a special account opened with the Treasury bodies and the calculation formula restricting the limit of tax invoices registration is postponed from 1 February to 1 July 2015.

The amendments also provide quite substantial penalties for violating the terms of registration of tax invoices with the Unified Register of Tax Invoices from 10 to 40% depending on the term of registration violation.

***Single tax:***

The number of single tax payers groups is decreased, the allocation criteria are changed and the tax rates are reduced.

Group I includes individuals who do not employ workers and only sell goods at market-places or provide household services to the population and have the income under UAH 300,000. The tax rate is up to 10% of the minimal wage.

Group II includes individuals having up to 10 employees and the income up to UAH 1.5 million. The tax rate is 20% of the minimum salary.

Group III includes individuals and legal entities with an income up to UAH 20 million. The tax rate is thus up to 2% of the income for VAT payers and 4% for non-payers.

Just like before, the single tax payers pay the unified social charge from their taxation basis as defined by the payers on their own, but no less than the amount of the minimal tax contribution.

Group IV includes the payers of fixed agricultural tax with similar taxation conditions.

***Personal income tax:***

The ceiling for the Personal income tax (with regard to the income, the total amount of which in a month exceeds the minimal salary amount under the laws of Ukraine (UAH 12180)) is increased from 17 % to 20 %.

The separate rates will be applicable to the passive income regardless of the taxation basis, in particular, 5% for income in the form of dividends on shares and corporate rights by resident taxpayers; 20% for all other types of passive income.

***Military duty:***

The military duty imposition shall be extended until the Resolution of the Verkhovna Rada of Ukraine on completion of the Armed Forces reform becomes valid and effective. The duty rate is not changed, however, the taxation base now includes the Personal income tax, while in 2014 it was limited to the salary and the payments under civil law contracts.

***Excise duty:***

The excise duty on securities sale is canceled. However, the products subject to excise now include electric power and heating by including into the excise a fee as a targeted surcharge to the current electricity and heating tariffs.

Moreover, a new excise is introduced on retail sales of alcohol drinks, tobacco products and fuel, which will act as a local tax for sales of several types of excise products (see below).

***Vehicle tax:***

In fact, a new tax was introduced in an amount of UAH 25,000 for the vehicles having the engine volume exceeding 3,000 cubic cm and manufactured less than 5 years ago.

The amendments to the Tax Code of Ukraine adopted on 28 December 2014 contain a number of innovations which will have an impact the financial capabilities of local budgets.

Both the list of local taxes and duties, and the approaches to administering them were changed. The real estate taxation basis was expanded by including non-residential premises. Moreover, a local sales tax was imposed as a retail excise duty for alcohol drinks, tobacco products and fuel. In addition to an obvious would-be budget revenues increase, these two new sources entail certain risks (adverse aspects).

***Tax on real estate other than the land plot:***

According to the IBSEER experts, the introduction of the real estate tax shall be aimed to provide local self-government bodies with their own sustainable and adequate financial resources sufficient to carry out large (investment) projects.

The following conditions are necessary to efficiently introduce the real estate tax: taxation of all (!) real estate objects regardless of the legal conditions of use; solving the social issues related to the taxation of real estate owned (used) by the low-income people via the expenditure part of the budget; authorizing local self-government bodies to define the acceptable level of taxation on their own, that is, to establish rates within the range starting from zero and up to a quite high upper limit; accruing all the proceeds exclusively to local self-government budgets (that is, cities, villages and settlement); targeted use of the tax proceeds for the goals defined (approved) by the community; therefore, the tax proceeds shall be accumulated in the special fund of local self-governance budgets.

This approach shall ensure the following (advantages): the genuinely “local nature” of the real estate tax, sufficient financial resources for the local self-government; clear connection of paid funds to the obtained results ensuring the transparency of the budgetary process; engagement of all community members to the community activities by understanding the following chain: paid funds - obtained result; establishing taxation rates according to local peculiarities of the taxation objects and financial capacity of the people; increasing the responsibility of the elected local self-government managers; ensuring transparency of the budget funds expenditures; fair taxation through involvement of all community members into taxation.

The tax for real estate other than the land plot shall be paid at a rate of up to 2% of minimum salary per each square meter of the object space.

Despite the initial plans to include *all* residential and non-residential real estate objects into the taxation base, the final language of the Law retains the reduction of the taxable space of each real estate object by 60 sq.m. for apartments and by 120 sq.m. for private houses. In addition, municipal, village and settlement councils may increase the tax-exempt limit of the real estate space determined by the Code. The law also provides for residential real estate tax exemptions of orphans, children deprived of parental care, disabled children being grown up by single mothers (fathers); non-residential premises such as minor architectural forms (MAFs), market premises, industrial buildings, including warehouses, as well as agricultural facilities.

Thus, the **provisions of Law have just maintained the existence of the unsustainable real estate taxation scheme** adopted in the initial Tax Code back in 2010 and never really operational in Ukraine: selected taxation of real estate with attempts to solve the problem of social protection for the low-income social strata via the revenue part of the budget. The IBSEER experts have repeatedly emphasized that the real estate tax shall be chargeable from real estate objects rather than its owners. This system assures a fair and uniform approach to the taxation and minimizes the opportunities of tax avoidance. Moreover, this approach stipulates an easier, more transparent and foreseeable way to administer the tax: if there exists a real estate object, there should be tax proceeds from it. The approach stipulated by law entails determining (finding out) all real estate objects owned by the same person to properly determine the amount of tax to be charged; then, the shares of this amount due to different local budgets shall be determined if the real estate objects of the same owner are registered on different territories.

As for the residential real estate, the very principle of solving social problems through granting privileges to low-income populations is erroneous, as it does not guarantee that the privilege will be used only by the people who need help. Earmarked payments to the people in need of financial aid would be more efficient in terms of feasible use of financial resources. In other words, social problems must be solved at the expense of the expenditure part of budget rather than the revenue one.

The proposal to expand the real estate taxation base by including commercial real estate therein is highly disputable. Imposition of the commercial real estate tax would generate additional pressure, in the first place, on small businesses (hotels, restaurants and bars, tourist camps, shops, vehicle servicing

stations, canteens, warehouses etc.), which goes contrary to the goal of stimulating consumption as a condition for overcoming the economic crisis.

Thus, the approved provisions of the Tax Code with regard to administering the tax on real estate other than the land plot retain the inefficient scheme of tax administration being unreasonably complicated in terms of administration, unfair in terms of even distribution of taxation and incapable in terms of finance. Thus, the existence of the real estate tax in this form is unfeasible.

***Excise duty from retail sales of alcoholic drinks, tobacco and fuel:***

The proposal to introduce a local excise for retail sales of beer, alcoholic drinks, tobacco products and fuel with the rate from 2% to 5% of their price including VAT is disputable. Actually, the proposal envisages a local sales tax for separate types of goods, and as the list includes only excise goods, the tax itself was called “excise.” However, by its nature – from the viewpoint of taxation base, calculation scheme and payers - this is not an excise but specifically a sales tax. Given the weak domestic market and the low paying capacity of population, the consumption will have affected both from the economic point of view (increased consumption is among conditions for a VAT increase) and from the point of view of higher volumes of illegal (smuggled and counterfeit) sales in excise goods.

***Sub-task 1.2.3: Help the GOU develop and review amendments to budget legislation that promote local level strategic planning and enable local governments to attract private sector resources for local infrastructure development projects;***

- ***Help the GOU develop and review amendments to the Budget Code and sub-laws that:***
- ***Enable all creditworthy communities to have access to lending resources to fund their infrastructure development projects;***
- ***Regulate the process of adoption by local governments of responsibilities and financial obligations within PPP arrangements;***
- ***Enable local governments to separate energy efficiency savings from the rest of the budget and use these savings to reimburse implementers of performance contracts.***

Striving to assist cities in attracting resources of the private sector for implementation of infrastructure improvement projects, MFSI-II experts conducted three working meetings with the Public Private Partnership Development Program (P3DP) as part of the Memorandum of Cooperation signed by the Institute for Budgetary and Socio-Economic Research and P3DP on 2 October 2012. MFSI-II experts took part in a roundtable to discuss the Draft PPP Development Strategy in Ukraine for 2012-2017 and the Action Plan on 6 November 2012.

In order to remove the said barriers, MFSI-II experts have updated their proposals for amendments to the Budget Code of Ukraine. The prepared amendments to the Budget Code of Ukraine have been forwarded to all stakeholders for review.

***Result: Development of draft changes to the legislation and regulations***

***Deliverable: draft amendments to the Budget Code (if needed); draft decrees of the Cabinet of Ministers (if needed); draft decisions of the State Treasury (regarding the issues of budget execution when implementing PPP projects) (if needed)***

***Timeline: October 2014 – September 2015***

As noted above, **on 10 October 2014**, upon invitation from the USAID Public-Private Partnerships (PPP) Development Program and the American Chamber of Commerce in Ukraine, MFSI-II Project experts participated in a roundtable “Ukraine’s Health System Financing.” They also addressed issues that



require improvements in the Ukrainian legislation as part of introduction of PPP (Budget Code, laws and bylaws), including:

- long-term budget obligations to be taken by a public partner based on PPP contracts, and fulfilled within the validity periods of such contracts;
- fair and real compensation to be paid by a public partner to a private partner for early termination of the PPP contract to reimburse the private partner for its reasonable loss (based on the termination causes).

MFSI-II Project experts will further cooperate with the PPP Development Program run by USAID in development of changes to the budgetary legislation for the purpose of introducing PPP in Ukraine.

MFSI-II Project experts participated in the meetings of the Working Group on legislative regulation of application energy service contracts as a public-private partnership component upon invitation from the Coordinating Center for Implementation of Economic Reforms under the President of Ukraine. This has been set up to address the issue of legal foundations for operation of energy service companies and implementation of energy service contracts. Representatives from the Ministry of Finance, Ministry of Economy, National Communal Services Regulatory Commission (National Commission), EBRD, and DTEK Company attended these meetings.

The Working Group considered, among other things, a Draft Law on amendments to the Budget Code of Ukraine. This Draft Law is needed to remove legislative barriers for introduction of energy service contracts. As a result, the participants of the Working group have supported inclusion into the legislative draft the proposals developed by the MFSI-II Project experts. Having been registered in 2013, the said legislative proposals were returned by the relevant Parliamentary Committee for further elaboration. This is why MFSI-II experts took a further pro-active part in their refinement.

*Result/ Deliverable: Development of draft changes to the legislation and regulations (if needed)*

*Timeline: October 2014 – September 2015*

MFSI-II experts participated in six meetings arranged by various entities, including the State Agency for Energy Efficiency and Energy Conservation, in order to further elaborate law drafts on the possibility to engage private capital in energy-conservation activities in the public sector.

As a result, on 9 and 11 December 2014, similar legislative drafts were registered by MPs at the Verkhovna Rada of Ukraine. There are also amendments to the Budget Code identical to the legislative draft developed with Project participation.

The adoption of these amendments will make it possible for the first time to resolve problem issues preventing the introduction of energy service contracts at the legislative level. This will give a great boost to the energy independence of Ukrainian cities.

MFSI-II will participate in further work on the said legislative initiatives.

***Sub-task 1.2.4: Help local governments assess draft legislation affecting the local development such as Community Associations Bill and Regional Development Bill and suggest amendments with a focus on strengthening local revenues***

The MFSI-II Project experts took part in a working meeting on 17 February 2012, chaired by Anatoliy Blyzniuk, Minister of Regional Development, Construction, Municipal and Housing Services of Ukraine. Discussed at the meeting were the main directions and priorities of implementation of the local government and regional development reform. MFSI-II experts reviewed the provisions of the draft Law

of Ukraine “On Associations of Territorial Communities” No. 9590 of 14 December 2011 with regard to the financial support to associated communities. Conclusions and proposals were prepared and forwarded to all stakeholders on 22 February 2012. After this, the proposals were considered at the roundtable meeting at the Committee on State Building and Local Government of the Verkhovna Rada of Ukraine on 12 March 2012.

MFSI-II experts have reviewed the following:

- the Decree of the Verkhovna Rada of Ukraine No. 4350-VI dated 7 February 2012 directed to send for the repeated first reading the draft Law of Ukraine on the foundation of the State regional policy, which was registered by the Verkhovna Rada on 1 June 2010 under No. 6462;
- the Cabinet of Ministers of Ukraine’s Decree No. 312 of 21 March 2012 “On Approving the Procedure for Using in 2012 the Assets of the State Regional Development Fund;”
- the Cabinet of Ministers of Ukraine’s Decree No. 656 of 4 July 2012 “Issues of the National Regional Development Fund;”
- the Law of Ukraine “On the State Budget of Ukraine for the Year 2013” in terms of the formation of the Regional Development Fund;
- the Resolution of the Cabinet of Ministers of Ukraine No. 30 of 23 January 2013 amending the Procedure for Preparation, Evaluation, and Selection of Investment Programs/Projects that can be Implemented out of the State Regional Development Fund;
- the Cabinet of Ministers of Ukraine issued Ordinance of 20 March 2013 No. 149-r “Certain Issues of Utilization of State Capital Expenditures in 2013;”
- the Decree of the Cabinet of Ministers No. 576 of 14 August 2013 amended the Procedure for Using the Resources of the State Regional Development Fund approved by Decree of the Cabinet of Ministers No.656 dated 4 July 2012 “Issues of the State Regional Development Fund.”

IBSER will review the draft legislation affecting local development and suggest amendments with a focus on strengthening local revenues (if an administrative and territorial reform is implemented, the said proposals will take the aspects of a new State system into consideration);

*Deliverable: The proposals based on the analysis findings prepared*

*Timeline: Ongoing process*

IBSER will review the legislative changes aimed at financial support of regional development, in particular, for establishing a Regional Development Fund, and prepare its proposals intended for strengthening the financial resources of local governments.

*Deliverable: The proposals based on the analysis findings prepared (if changes are approved)*

*Timeline: April – June 2015*

***Sub-objective A.1: Ensure institutional sustainability of the PPB training program(s).***

***Sub-task A.1.1: Conduct a study of the training centers that can offer PPB training sessions and methodological support to facilitate the introduction and effective application of PPB at the local level; identify those centers that are capable and interested in conducting PPB training sessions and providing methodological support on a regular basis***

According to the Project action plan, IBSER had to start its selection of and collaboration with the Centers in 2012. In a timely manner, IBSER selected post-graduate educational institutions, which are capable of and interested in delivering PPB training sessions. Training centers were selected in the Kirovohrad, Odesa, Chernivtsi, and Zakarpattia oblasts and in the city of Kyiv.

In collaboration with the Kirovohrad Retraining and Qualifications Enhancement Center, MFSI-II experts held a training on practical PPB implementation on 2 October 2013. On 10 October, a similar event was held at the Zakarpattia Regional Retraining and Qualifications Enhancement Center, the first training at this location. Participants included heads of budgetary organizations and institutions, and a training-of-trainers approach was used to build the capacity of local PPB specialists who would go on to train others.

These activities completed the first series of training for specialists of the selected training centers. The trainees were introduced to the theoretical foundations of PPB, instructive materials, and practical aspects of its application in accordance with the methodology documents developed by the Ukraine Ministry of Finance. This develops a practical expertise of delivering PPB trainings, which will subsequently enable local government staff to acquire the knowledge and skills required for effective PPB implementation.

According to the Memorandum of Cooperation with the Kyiv City Retraining and Qualifications Enhancement Center, MFSI-II experts conducted an advanced training focused to practical aspects of Performance Program Budgeting on 20 February 2014. The training participants were familiarized with changes in the PPB legislation, special conditions in the formulation of budget program passports, and implementation of a comparative analysis of budget program performance.

This event has launched a new series of training workshops for specialists of the selected training centers, who will be subsequently delivering PPB training sessions.

During the fourth year with IBSER's support, these organizations will develop and adopt the PPB training curriculum and materials and will conduct PPB training sessions to support the introduction of PPB at the local level. MFSI-II experts will organize and deliver PPB trainings for specialists of these organizations.

*Deliverable:* Report on the number of trainings held and the number of participants attending the trainings with a breakdown by gender

*Timeline:* October 2014 – March 2015

During the reporting quarter, **8 trainings** on methodological aspects of Program Performance Budgeting (PPB) were carried out at the regional retraining and qualifications enhancement centers in Kirovohrad, Zakarpattia, Chernivtsi oblasts and the city of Kyiv. The public officials and local self-government bodies took part in them. The participants obtained were updated on PPB, specifics of budget program passports and benchmarking of the budget programs efficiency. 150 local-level specialists were trained, among them 23 men and 127 women.

These trainings followed up on the MFSI-II Project tasks on the institutional sustainability of PPB training programs. This practice would allow implementing the PPB methodology at the training centers providing continuous PPB training.

See folder “Deliverables.”

***Sub-task A.1.2: Help those training centers to develop a PPB training curriculum and PPB training materials and to conduct at least 50 PPB training sessions for relevant GOU officials***

IBSER will hand over the PPB Handbook developed under Sub-task 1.1.4 to the selected training centers and will assist with the PPB training curriculum, as well as conduct at least 50 PPB training sessions with the specialists of such training centers. During the fourth year of project implementation, MFSI-II experts will deliver at least 30 PPB training sessions with the specialists of such training centers.

On the whole, as part of collaboration with the Training Centers (*Sub-task A.1.1 and Sub-task A.1.2*), 1,383 local specialists were trained, including 1,210 women and 173 men.

*Deliverable:* Report on the number of trainings held and the number of participants attending the trainings with a breakdown by gender

*Timeline:* January – June 2015

***Objective B: Develop and introduce financial practices that foster energy efficiency in 15 selected cities***

**Task 2.1: Assist the cities in introducing an effective system of managing energy savings in the public sector**

- IBSER will improve the unified methodology developed during the first year of Project implementation and will select four Ukrainian cities for the fourth year of the project. IBSER will coordinate selection with Public Private Partnership Development Program and Developing Initiative for Advocating Local Governance in Ukraine (DIALOGUE).
- To assist the cities in developing well-founded energy efficiency programs, IBSER will develop a system of monitoring of energy expenditures based on PPB method for the selected four cities, which will be based on similar system developed for the cities selected for the first year of the project. In order to implement this system and based on the experience of MFSI-II Project accumulated in the first year of implementation, IBSER will prepare the training materials on implementation of the said system and will conduct training for specialists of key spending units in four selected cities.

*Result/Deliverable:* Four Ukrainian cities for the fourth year of the project are selected using the developed unified methodology

*Timeline:* October – December 2014

For participation in the fourth year of the MFSI-II Project, the cities were selected in line with the updated selection methodology developed in the first year of the Project.

The competition results showed a success for the cities of Sumy, Komsomolsk, Chernivtsi, Artemivsk, Kirovohrad and Berdychiv, and the Memoranda of Cooperation were made with them.

The agenda of energy efficiency and energy saving is duly reflected in the policies of the selected cities' councils. For instance:

- An energy saving and energy efficiency program in the budgeting sphere of Sumy city for 2014-2016;
- An energy sustainability plan of Komsomolsk city for the period up to 2025, an action plan on sustainable energy development of Kirovohrad up to 2020.

The cities must not only strive to improve their energy efficiency as a whole, but should also undertake practical energy saving activities/projects. Therefore, existence of the latter was one of the criteria in the city selection. All the chosen cities meet it, for example:

- The project "Streamlining the Heating Lay-out with Installing a Modular Thermal Generator at 88-a Kotovskoho Str." (Berdychiv);
- The project "Overhauling the Street Lighting through Upgrading Lighting Devices with LED-lamps" (Chernivtsi), etc.

Collaboration of the cities with the MFSI-II Project will help the cities to improve their energy efficiency, will facilitate establishment of an effective energy saving system in each of the selected cities, in particular, through experts' development of a system for monitoring of energy expenditures for the cities, and financial incentives for energy saving in the budgetary sphere. The participation of city representatives in the seminars, working meetings, and other events organized by the MFSI-II Project will create opportunities for experience-sharing and for learning from the best domestic and international practices of improving the energy efficiency at the local level.

See folder "Deliverables."

*Result: An analysis of four selected cities on current budget expenditures on energy resources.*

*Deliverable: A report on analysis of four selected cities on current budget expenditures on energy resources.*

*Timeline: January – March 2015*

*Result/Deliverable: An updated system for monitoring energy-related budget expenditures for four selected cities.*

*Timeline: April – June 2015*

*Result/Deliverable: A training course developed and a report prepared on the number of trainings held and the number of specialists who participated in trainings with a breakdown by gender.*

*Timeline: July – September 2015*

## **Task 2.2: Assist in designing and implementing financial incentives to promote the establishment of effective energy savings systems in the public sector**

- IBSER experts will help municipalities design and introduce financial incentives to promote the establishment of effective energy savings system in the public sector.
- If needed, a review and improvement of the budget legislation needed for implementation of the said financial incentives will be carried out under Task 1.2.3.
- To help the chosen municipalities introduce the financial incentives that foster energy efficiency, IBSER will provide advisory support to the municipalities in designing budget programs, in particular, those intended for the realization of individual investment projects.
- If, given the environment of limited budget resources, the cities will be unable to implement the system of financial incentives, IBSER will suggest other mechanisms for ensuring energy efficiency



in the public sector, e.g., establishment of Energy Saving Fund. IBSEER will propose the sources for accumulation of such Fund, spending areas, principles for selecting priority projects etc.

- If legislative amendments are approved, in particular those to the Budget Code with regard to implementation of energy service contracts in the public sector, IBSEER will develop the training materials on this topic and deliver training/provide consultations to the selected cities and other interested cities in Ukraine.

*Deliverable: Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector are updated and presented at a session of the Financial and Economic Forum.*

*Timeline: October 2014 – March 2015*

As indicated in Sub-task 1.2.3, on 9 and 11 December 2014, similar legislative drafts with regard to the possibility of engaging private capital into energy-saving activities in the public sector were registered by MPs at the Verkhovna Rada of Ukraine. There are also amendments to the Budget Code identical to the legislative draft developed with involvement of the Project. The draft laws also stipulate financial incentives to promote the establishment of an effective energy savings system in the public sector, in particular, due to enabled retaining in the budget a part of savings coming from energy-efficiency activities even before completing the settlements with a private partner under them.

The MFSI-II experts will take part in drafting by-laws in order to implement the said legislative norms (after its approval), while the practical recommendations on this implementation will be presented at a session of the Financial and Economic Forum.

See folder “Deliverables.”

*Deliverable: Consultations on system implementation provided to the cities, including for development of budget programs and individual investment projects (or with regard to other mechanisms of ensuring energy efficiency in the public sector).*

*Timeline: October 2014 – September 2015*

With the advisory support provided by the MFSI-II Project, the city of Sievierodonetsk got approval from the Ministry of Finance of Ukraine for the scope and terms of granting a local guarantee for implementation of the Sievierodonetsk Street Lighting project.

The main goal of the project is to reduce energy consumption, improve efficiency of energy utilization, and install a more efficient new equipment. Thus, the electric power consumption will be reduced thanks to replacement of the existing street lights with new energy-efficient DIOD lights providing the energy economy of 322.2MW per year. Implementation of the project will have a significant environmental impact, in particular, by reducing the CO<sub>2</sub> emissions by 258 tons per year.

The successful completion of the Sievierodonetsk Street Lighting project will have an important socioeconomic effect, as it will ensure improved safety of motor and pedestrian traffic.

See folder “Deliverables.”

*Deliverable: Training /consultations to selected cities and other interested Ukrainian cities with regard to implementation of energy service contracts in the public sector (if appropriate amendments to the legislation, in particular to the Budget code, are approved).*

*Timeline: January – September 2015*

**Task 2.3: Assist partner municipalities in building capacity of municipal enterprises to conduct modern financial analysis and planning to support their strategic and annual plans**

The IBSER experts will assist the partner cities in strengthening the capacity of communal service enterprises to carry out a financial and economic analysis and planning as part of their strategic plans and action plans, including their coordination and matching with the municipality's strategic goals and objectives.

*Deliverable: Report prepared on the number of trainings on the monitoring and evaluation of energy efficiency projects implemented by municipal enterprises and implementing of the methodology of financial and economic justification of strategic and planning documents of municipal enterprises consistent with the municipality's strategic goals held and the number of specialists who participated in trainings with a breakdown by gender*

*Timeline: January – March 2015*

*Deliverable: Consultations to the staff of municipal enterprises on using the methodology provided*

*Timeline: October 2014 – September 2015*

MFSI-II experts are providing systematic consultations to the Project cities on implementation of a system of financial stimulation for efficient use of energy resources by budgetary institutions, including the development of budget programs and individual investment projects. Also MFSI-II suggested to address certain additional issues for each local council.

See folder "Deliverables."

***Objective C: Enhance public awareness of the public budgeting process, revenues and expenditures*****Task 3.1: Analyze the execution of budgets at all levels and analyze the budget legislation, disseminate impartial information**

IBSER will prepare an independent budget implementation and budget legislation analysis to support the efficient and transparent implementation of local budgets. Thus, work will continue to analyze the execution of budgets at all levels and analyze budget legislation. In particular, in order to ensure the monitoring of the impact of the changes to the local revenues legislation, the IBSER will conduct a constant monitoring of the budget process in all of its stages. The results of the monitoring will be presented in monthly and quarterly publications dedicated to the analysis of the budget execution. The results of the monitoring and analysis conducted will be disseminated among all the stakeholders and partners.

*Result: IBSER experts will prepare a monthly monitoring of national and local budget implementations and place it on the IBSER website (webpage).*

*Deliverable: Monthly monitoring*

*Timeline: The monthly monitoring in electronic form is prepared and placed on the IBSER website (webpage) by the end of second week of every month*

In the reporting timeframe, the project prepared monthly monitoring reports (three for the reported period) on the implementation of the state and local budgets for the period from August 2014 to October 2014 (See “PMP”). The reports were placed on the website. On the whole, there were 36 monthly monitoring reports prepared and published on the website since the launch of MFSI-II.

See folder “Deliverables.”

*Result: Monitoring of the budget and fiscal impacts on local budgets in form of a full-scale analysis of the budget process*

*Deliverable: Budget Monitoring*

*Timeline:*

*The Monitoring for the 3rd quarter of 2014 is placed on the IBSER website by 31 December 2014.*

*The Monitoring for the 4th quarter of 2014 is published, distributed among the IBSER’s partners, and placed on the IBSER website by 31 March 2015.*

*The Monitoring for the 1st quarter of 2015 is placed on the IBSER website by 30 June 2015.*

*The Monitoring for the 2nd quarter of 2015 is published, distributed among the IBSER partners, and placed on the IBSER website by 30 September 2015.*

*Result/ Deliverable:*

In total, there were twelve quarterly monitoring reports prepared and published on the website since the beginning of the MFSI-II Project.

According to the State Treasury preliminary data, MFSI Project experts prepared the *Budget Monitoring for January–September 2014* (See “PMP”).

The monitoring included an analysis of the latest trends regarding the State and local budget execution, as well as an analysis of the legislative acts influencing the budget process, approved over the reporting period. *The Budget Monitoring* was distributed among the interested parties and stakeholders, and placed on the website. Key highlights include:

In January – September 2014, the **macroeconomic situation in Ukraine** remained complicated, with a vague outlook for regional economic development and dependency on fuel imports.

**The nominal GDP** was UAH 1,116.5 billion, which exceeds the previous year indicator by UAH 70.4 billion, or 6.7%. For comparison, in 2013 GDP in nominal terms advanced by 1.5, in 2012 – by 1.3%.

**The real GDP** for 9 months of 2014 fell by 5.1 percentage points (in the fixed prices of 2010 to the respective period of 2013).

In January – September 2014, the production output in most of the industries kept falling. The quickest shrinkage is observed in blacksmithing, molding, pressure forming, roll forming; powder metallurgy (by 47.3 p.p.) and production of jewelry, bijouterie and similar products (by 45.7 p.p.), as well as in cars, trailers and semitrailers, and other vehicles production (by 34.8 p.p.).

**The consumer price index** (compared to December last year) went up by 16.8 p.p. and is 116.2% during January – September of 2014.

**The producer price indexes** were the highest in the last 5 years, as they grew by 25.3 p.p. compared to the similar period of the previous year and reached 127.4%

**The foreign economic balance** of Ukraine was positive and equal to USD 5.2 billion.



During 9 months of 2014, **the nominal average monthly salary** per full-time employee was UAH 3,481.00 and increased by 6.7% compared to the previous year indicator. This exceeds the state social standards (minimal salary and minimal subsistence level of a capable person is UAH 1,218.00) by 2.9 times.

**The real salary index** in January - September of 2014 was 96.0%, which is by 13.1 p.p. less than the last year.

The performance levels of the **revenue and expenditure parts of the consolidated and the state budget** demonstrated a certain growth as compared to the previous year indexes. Thus, according to the official data, the revenue performance of the consolidated budget of Ukraine was UAH 333.4 billion, which is by UAH 7.5 billion or 2.3% more than in the previous year, and constituted 69.0% of the planned indicator. The revenue performance of the State Budget of Ukraine was UAH 175.9 billion, which is UAH 13.3 billion or 8.2% more than in 2013.

**Break-down of Revenues of the Consolidated and State Budgets of Ukraine  
in January–September 2012–2014**

(%)

Revenues	Consolidated budget			State budget		
	2012	2013	2014	2012	2013	2014
<b>Tax revenues, including:</b>	<b>82.9</b>	<b>80.5</b>	<b>78.3</b>	<b>82.1</b>	<b>78.5</b>	<b>75.9</b>
– corporate profit tax	12.5	13.1	10.0	16.1	16.9	12.8
– value-added tax	31.8	28.8	28.2	41.2	37.6	36.3
– excise tax	9.2	8.5	9.8	11.6	10.8	12.5
– taxes on foreign trade and external transactions	3.1	3.0	2.6	4.0	3.9	3.4
<b>Non-tax revenues</b>	<b>16.4</b>	<b>18.9</b>	<b>19.6</b>	<b>17.7</b>	<b>21.2</b>	<b>21.7</b>
<b>Income from capital transactions</b>	<b>0.5</b>	<b>0.3</b>	<b>0.5</b>	<b>0.1</b>	<b>0.0</b>	<b>0.3</b>
<b>Targeted fund</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Other revenues</b>	<b>0.0</b>	<b>0.1</b>	<b>1.5</b>	<b>0.0</b>	<b>0.2</b>	<b>2.0</b>

The principal factor of the budgetary funds increase is the growth of non-tax proceeds as funds transferred by the National Bank of Ukraine under the Law of Ukraine “On the National Bank of Ukraine,” as well as incorporation of the European Union financial assistance to the budget.

At the same time, key taxation items showed a lower level of proceeds than in the previous years: corporate profit tax proceeds decreased by 21.6%, proceeds from the excise duty on the domestically manufactured goods reduced by 0.3%, foreign trade and foreign transactions tax proceeds dropped by 10.0%. The amount of value-added tax proceeds for the said period is a bit higher than in the previous year (+UAH 0.2 billion or +0.2%). However, this is caused rather by the volume of tax refunds from the state budget narrowed by UAH 2.1 billion, or by 4.9%, than by the net increase of tax proceeds.

The performance of the revenue part of the budget in the three quarters of 2014 remains quite tense. In particular, there are high risks of budget non-fulfillment regarding practically all taxation items. Preliminary calculations show that the planned annual indicators may be under-achieved by UAH 15 billion.

**The local budgets revenues (without interbudgetary transfers)** were UAH 74.1 billion, which is by 3.0% lower than in January – September of 2013. The planned level of revenues approved the local councils was achieved by 67.5%.

The volume of tax proceeds constituting 86.5% of the local budgets revenues (without interbudgetary transfers) is UAH 64.1 billion, which is by 3.7% less than the previous year indicator. The decrease is due to the diminished amounts of proceeds from principal revenue sources for local budgets: personal income tax and land fee which were decreased accordingly by 2.8% and 4.5% compared to the previous year.

The highest pace of growth among the local budgets income sources is demonstrated by the single tax for small businesses obtained in an amount of UAH 5.3 billion, which is 11.2% higher than over January-September 2013. The single tax proceeds amounted to 70.7% of all the development budgets revenues.

The performance level of the **consolidated budget expenses** decreased (by 2.8%) compared to January-September 2013 and constitutes 62.5%.

The consolidated budget expenditures growth pace was decreased by 5.5 p.p. and constituted 101.4%. GDP growth pace increased by 6.2 p.p. compared to the previous year. The share of consolidated budget expenditures in the GDP decreased by 1.7 p.p. and is 32.6%. The share of local budgets expenditures in the consolidated budget expenditures decreased by 9.0 p.p. compared to 2013 and is now 34.5%.

**The state budget expenditures** are performed in an amount of UAH 298.8 billion, which is 65.3% on the planned indicator for the year.

Among the best-funded items are the housing and communal sector (78.2% of the annual planned volume, which is by 44.8 p.p. more than in the previous year), social protection and social security (73.4%), interbudgetary transfers (70.8%). The lowest level of funding was allocated for environmental protection. During 9 months of this year, UAH 1.5 billion, that is 43.0% of the planned amount for the year, was spent for this purpose.

As reflected in the enlarged expenditures of the state budget compared to the previous year (by UAH 24.4 billion in total), top priorities of the state policy are: interbudgetary transfers (accountable for almost 38.9% of all expenses increase); general government functions – about 36.1% (fully attributable to debt servicing); defense – 20.5%, public order, civil security and judiciary – 4.5%.

**The local budgets expenditures (taking into account interbudgetary transfers)**, in comparison to the previous year, advanced by 0.9% only and constituted UAH 158.9 billion. The annual plan approved by the local councils was performed by 61.7%. Traditionally, the majority of the local budgets expenses is invested in the social and cultural agenda.

In January – September of 2014, the expenditures on culture and arts (+16.1%), interbudgetary transfers (+28.7%), housing and communal sector (+89.7%) were increased. The latter grew due to the governmental subvention to the local budgets for repayment of tariff difference debts in an amount of UAH 4.9 billion, while the above subvention expenditures for the similar period of 2013 were only UAH 0.5 billion.

The share of salary expenditures with accruals is traditionally the largest among all those of local budgets. Compared to the previous year, it decreased by 4.4 p.p. and amounted to 43.6%. However, the actual amount of these expenditures decreased by UAH 6.3 billion or 8.3% and constituted UAH 69.2 billion. Generally, the current expenditures of local budgets exceeded UAH 150.5 billion, which is by 1.9% more than in January - September of 2013. The capital expenditures were financed in an amount of UAH 8.4 billion, with their volume shrinking by 1.5 billion, or 14.8%.

**The state budget deficit** was UAH 40.1 billion, which is 58.5% of the permissible ceiling, as set forth by the Law of Ukraine on the State Budget for 2014. This deficit indicator exceeds the same for January – September of 2013 by UAH 4.9 billion or 13.9%.

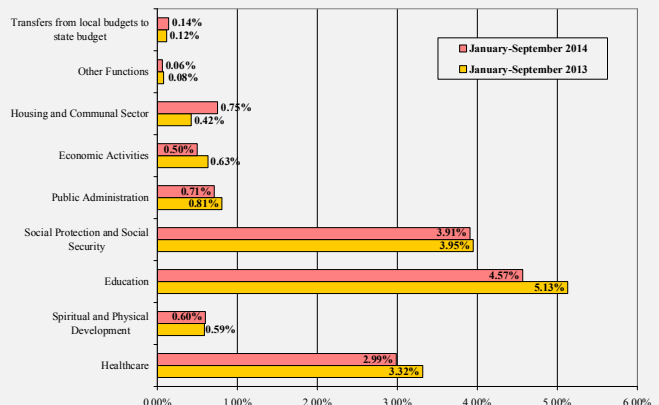
**Loans to the state budget** were made in an amount of UAH 226.3 billion (86.2% of the annual planned volume). Internal loans were made in the amount of UAH 150.2 billion or 87.1% of the planned annual volume, external – in an amount of UAH 76.2 billion, or 84.3%.

**The state debt repayment** was UAH 70.8 billion, which is 64.9% of the planned volume for the year. The internal debt repayment was UAH 44.9 billion, while 66.4% of the planned annual volume of the external debt repayment was UAH 25.9 billion or 62.4%. Compared to the similar period of the past year, the gap is increasing between the amount of loans and debt repayments, which will further increase the debt burden on the budget, but is necessary under the current situation in Ukraine.

According to the State Treasury Service, the **volume of loans to cover temporary cash deficiencies** out of the single treasury account funds were UAH 24.8 billion, which is 32.9% lower than the similar indicator for 2013.<sup>8</sup>

**Proceeds from the state property privatization** amounted to UAH 0.1 billion or 0.3% of the annual plan. In January - September 2013, these proceeds were UAH 0.9 billion or 8.4% of the annual plan.

**Share of Local Budget Expenditures in GDP  
in January–September 2013–2014**



**The budget balance**, as of the end of September 2014, was UAH 51.0 billion and thus increased by UAH 20.2 billion or by 1.7% compared to the previous year. As a matter of comparison, according to the budget performance results, in January – September of 2013 the balance advanced since the beginning of the year by UAH 5.7 billion or 20.9%.

See folder “Deliverables.”

### **Task 3.2: Conducting public events and engaging the public in the budget process**

In order to efficiently engage the public in the budget process and sound the public opinion, IBSER will support the holding of public hearings. IBSER will continue its practices of holding meetings of the National Advisory Board and the Financial and Economic Forums on an ongoing basis with an invitation extended to all interested parties, including to representatives of the general public. In order to ensure the broadest possible dissemination of information at the local level and raising the level of public awareness, use will be made of all available mass media and other formats, such as holding of public hearings, publication of printed materials, train civil society leaders (NGO) in practices of budget oversight and engagement in the budgeting process etc.

*Result/Deliverable: Participation of IBSER experts in working meetings, roundtables, conferences, including international ones, radio and TV talk shows with the aim of disseminating information on the issues addressed by the project*

*Timeline: Ongoing process*

**On 2 October 2014** MFSI-II experts participated in Budget Efficiency, Transparency and Responsibility workshop that was organized with the assistance of GIZ Ukraine.

The representatives of the Secretariat of the Parliamentary Committees, public council of the Ministry of Finance of Ukraine, nongovernmental organizations and scientific circles were invited to discuss urgent issues raised by Gerd Ehlers, former State Secretary at the German Federal Minister of Finance.

Within the workshop, the principles of transparent and effective budgeting, privatization, public and private partnership were discussed based on the German experience and European standards.

As the result, the participants of the workshop improved their knowledge of transparent budget expenditures and high-quality state finance management.

**On 10 October 2014**, the MFSI-II Project participated in a roundtable “Ukraine’s Health System Financing” upon invitation of the USAID Public Private Partnership Development Program and the American Chamber of Commerce in Ukraine.

The Ministry of Health of Ukraine, Ministry of Finance of Ukraine, 3,000 International Charitable Foundation, New Social and Economic Policy Analytical Center, international experts, representatives of local authorities, business and public organizations were present at the discussion.

The participants discussed the implementation of public private partnership (PPP) in terms of health care and health care reform.

During the meeting, the participants studied PPP experience in health care in Ukraine and abroad. They also addressed issues that require improvements in the Ukrainian legislation as part of introduction of PPP (Budget Code, laws and bylaws), including:

- long-term budget obligations to be taken by a public partner based on PPP contracts, and fulfilled within the validity periods of such contracts;
- fair and real compensation to be paid by a public partner to a private partner for early termination of the PPP contract to reimburse the private partner for its reasonable loss (based on the termination causes).

A legal response to the issues raised above will ensure the investments in health care based on PPPs, promote solving actual problems in this sphere, and improve the overall quality of medical services in Ukraine.

**On 15 and 16 October 2014**, the MFSI-II Project took part in the seminar on Implementation of Accrual Basis of Accounting in the Public Sector organized by the Ministry of Finance of Ukraine under the Public Finance Reform Support Project with support from the German International Cooperation Society (GIZ).

The event was attended by the Ministry of Finance of Ukraine, Accounting Chamber, State Treasury Service, State Financial Inspectorate, State Fiscal Service, State Financial Monitoring Service, leading scholars, and representatives of non-governmental organizations.

The participants heard presentations delivered by German expert Stefan Schmidt on the advantages of implementing accrual basis accounting, principles of preparing financial accounts based on IPSAS International Accounting Standards, and had an opportunity to learn about practical aspects of applying the accrual method in Germany. Special focus was made on opportunities for using the accrual accounting data in public administration.

The covered issues are very topical and their implementation will make it possible to bring Ukraine closer to European accounting and reporting standards.

**On 29 October 2014**, representatives of the MFSI-II Project took part in a meeting of Ukrainian financial officers organized by the Association of Ukrainian Cities under the USAID Development Initiative for Advocating Local Governance in Ukraine (DIALOG) Project.

The meeting participants discussed proposals for amending the Law of Ukraine “On the State Budget of Ukraine for the Year 2014” and formation of the Draft State Budget for 2015.

In addition, the participants discussed the legislative drafts on amending the Budget Code and Tax Code of Ukraine, in particular, with regard to budget decentralization, and agreed their proposals for improving the amendments to the Budget Code intended to strengthen the financial base of local government.

**On 30 October 2014**, the MFSI-II Project attended the “Energy Performance Contracts as the Road to Country's Energy Efficiency” conference. The conference was hosted by the Regional Office of the Friedrich Ebert Foundation in Ukraine.

The event was attended by National Deputies, government ministries, State Agency for Energy Efficiency and Energy Conservation of Ukraine, nongovernmental organizations, businesses, academic circles, and mass media.

The conference was intended to hold presentations and public discussion on legislative drafts related to ESCO mechanisms in Ukraine, namely:

- “On Amending the Law of Ukraine “On Energy Conservation” with Regard to Legal Foundations for Implementation of Energy Performance Contracts;”
- “On Special Features of Conducting Energy Service Procurements;”
- “On Amending the Budget Code of Ukraine (with Regard to Implementation of Energy Efficiency Activities in Government-Funded Institutions),” which was developed with direct participation of the MFSI-II Project experts.

The legislative drafts are designed to remove barriers to implementing energy efficient projects with the participation of private investments.

The participants discussed the strengths and weaknesses of the legislative drafts and opportunities for their unification.

Adoption of the appropriate legislative framework would promote energy conservation in general, development of energy markets, and growth of the market of energy service companies.



**On 5 November 2014**, experts of the MFSI-II Project took part in a regular meeting of the Resuscitation Reform Package (RRP) initiative focusing on energy sector reform. The key issue of the meeting involved an accelerated adoption of the legislative amendments, in the development of which the MFSI-II experts have been engaged, with regard to opportunities of attracting private capital in energy saving activities in the public sector (ESCO).

The abovementioned legislative amendments are currently being in the process of approval at the Ministry of Finance, Ministry of Economic Development, and other interested ministries. The MFSI-II experts provided clarifications to answer some of the conceptual questions asked by RRP participants, which they had raised before the MinRegion earlier, and which provoked some opposition on the part of RRP with regard to said versions of the legislative drafts. The meeting participants decided to somewhat clarify the wording of the legislative drafts to provide a better transparency for the developed mechanism of concluding energy performance contracts. As the result, the MinRegion, as a Government ministry responsible for development of those legislative amendments, is to garner support of a wider circle of experts with regard to the need of their adoption. It can help submission of the legislative amendments to the Verkhovna Rada of Ukraine.

As noted earlier, adoption of the amendments to the main budget law developed with participation of MFSI-II Project experts will help to settle the problem issues hampering implementation of energy performance contracts at the legislative level for the first time. This would give a boost for further lessening of energy dependence of Ukrainian cities.

**On 7 November 2014**, experts of the MFSI-II Project were invited by ADTEF to take part in a roundtable meeting at the Ministry of Regional Development, Construction, Municipal and Housing Services of Ukraine (MinRegion) and join in a debate around the issue of relevance of implementation of Public Private Partnerships in Ukraine, in particular, in the water service sector.

The meeting participants were familiarized with the French experience in the sector, as well as the Ukrainian experience and actual situation, discussed the key problems, which need to be addressed to attract private investments into high-value investment projects at State/municipally-owned facilities.

Based on the discussion results, the participants agreed to continue activities of the working group at the Ministry of Economic Development, which should take part in developing legislative drafts and bylaws required for effective operation of Public Private Partnerships in Ukraine. The MFSI-II Project experts could assist in the work of said working group by developing the needed amendments to the budget legislation.

Implementation of PPPs in Ukraine will provide for a significant renewal of obsolete and worn-out capital assets in the utilities sector, will increase population access to quality services, and improve the environmental situation.

**On 12 November 2014**, the MFSI-II Project attended the Attracting Private Investments in Energy Efficiency Projects in Buildings of Government-Funded Institutions in Ukraine: Regulatory Reform and Further Steps roundtable held by EBRD. The meeting was also attended by USAID, Ministry of Regional Development, Construction, Municipal and Housing Services of Ukraine (MinRegion), State Agency on Energy Efficiency and Energy Saving of Ukraine (Derzhenergoefektyvnosti), Ukrainian cities, and others.

The meeting focused on a discussion of legislative changes regarding opportunities for engaging private capital in energy-saving activities in the government-funded sector (ESCOs). The Project was involved in developing the new legislation. The Project delivered a presentation on the respective legislative proposals to the Budget Code to the roundtable participants, and the representatives of cities expressed their reservations with regard to the proposed mechanism. As the result of the discussion, the participants supported the need to adopt these legislative changes and requested that in the course of development of relevant bylaws provisions should be incorporated that address the expressed reservations.

As noted earlier, adoption of the amendments to the main budget law developed with the participation

of the MFSI-II Project will make it possible for the first time to settle issues that have inhibited implementing energy service contracts at the legislative level. These changes will help to further reduce the energy dependence of Ukrainian cities.

**On 18 November 2014**, the MFSI-II Project took part in an international seminar on the topic of Fiscal Decentralization in Ukraine organized as part of the Ukrainian-Swedish project to support decentralization in Ukraine.

The event was attended by representatives of both the central and local governments, local government associations, members of Ukrainian parliament, leading Ukrainian and international experts.

The key topic for discussion was decentralization reform in Ukraine, its financial cross-sectoral aspects, and presentations of best European experience in these matters. The attendees heard presentations on special features of decentralization efforts in the European countries delivered by Swedish experts, and had an opportunity to learn about the practical aspects of implementing decentralization in Sweden. Special focus was made on the legislative drafts prepared by the government for implementing fiscal decentralization in Ukraine.

Based on the meeting results proposals have been developed to be taken into account when finalizing the legislation on implementing decentralization in Ukraine.

**On 19 November 2014**, the MFSI-II Project experts had a meeting with the IMF mission, involving Steve Gonyea, Director, Economic Growth Office, USAID.

The meeting focused primarily on the Ukrainian Government's initiatives to introduce a new model of inter-budget relations and strengthen the financial capability of local governments (draft Law on Amending the Budget Code of Ukraine No. 5078 dated 15 September 2014). The Project shared its analysis and proposed changes and also contributed to the discussion of key provisions of the legislative draft.

During the meeting, a separate objective was to address the achievements of the USAID-supported MFSI and MFSI-II Projects. In particular, the mission team looked into the results of piloting performance program budgeting at the local level and municipal fund-raising for the implementation of energy-saving projects.

The mission team appreciated outcomes of the discussion with the Project concerning the issues raised by them and pointed out the helpfulness of the professional analysis of major trends in the Ukrainian economic and budgetary indicators over 2012-2013, developed under the Project and presented in periodic budget monitoring updates.

The MFSI-II Project took part in a roundtable meeting on the topic of Challenges, Practices, and Strategy of Reform Implementation in Regions of Ukraine: Ukraine 2020. The event was held by the National Institute of Strategic Studies on **19 November 2014**.

The meeting was attended by officials from the government ministries and agencies, leading experts and researchers, representatives of local government and non-governmental organizations.

The participants discussed the ways of ensuring the growth of independence of the regions, building an effective institutional and legislative framework for the new state regional policy, and other topical issues of reform implementation at the regional level.

The Project presented proposals with regard to the need to accelerate the introduction of new social living standards for the populace, ensure transparency in the ways of implementing of reforms, and their promotion among the general public.

The proposals provided by the Project will be incorporated into a resolution to be prepared based on the meeting results.

**On 24 November 2014**, the MFSI-II Project took part in a meeting of the Resuscitation Reform Package initiative group, which is dealing with energy sector reform issues.

This special meeting was devoted to discussing the legislative changes that will enable private capital to be utilized for energy saving activities in the budget sector (ESCO). The Project took part in the development of these changes.

The meeting's participants noted the extensive and fruitful work implemented in preparing the legislative drafts "On Amending the Law of Ukraine "On Energy Conservation" with Regard to Legal Foundations for Implementation of Energy Service Contracts," "On Special Considerations in Energy Service Procurements," and "On Amending the Budget Code of Ukraine (with Regard to Implementation of Energy Efficiency Activities in Government-Funded Institutions)."

The participants have also pointed to the need to accelerate the adoption of the legislative drafts, as this would ensure the introduction of energy service contracts in the public sector, and they agreed to improve the developed legislative drafts if needed.

The adoption of these legislative drafts will empower government-funded institutions to conclude energy service contracts, which, in turn, will facilitate efficient energy consumption in the public sector and reduce the amount of energy resources used.

**On 11 December 2014**, the MFSI-II Project took part in a meeting of the coordinating group of donors in the field of public finance management under the auspices of the Ministry of Finance of Ukraine. The meeting was also attended by specialists in the field of finance and representatives of international donor institutions.

The participants discussed the priorities in developing a public finance management system and the vectors of donor support, as well as further strategies for the development of cooperation between the government and the donors. Individual projects presented the results of their activities in the sector of public finance management in the country.

During her presentation, department head O. Shvedenko from the Ministry of Finance Department of Cooperation with International Organizations and Coordination of International Technical Assistance made a special note of the achievements of the MFSI-II Project and gave details of the key groundwork completed by the project in the previous period.

**On 11 December 2014** the MFSI-II Project attended a working meeting with State Energy Efficiency and Energy Saving Agency (Derzhenergoefektyvnosti) focused on finalizing the draft of legislation providing opportunities for engaging private capital for energy conservation projects in the public sector (ESCOs). The meeting was also attended by the Ministry of Regional Development, Construction, Municipal and Housing Services of Ukraine (MinRegion).

These legislative changes, which were developed with Project assistance, are currently being finalized at an accelerated rate, in particular, with the aim of incorporating suggestions made by stakeholders. The finalized legislative drafts are expected to be submitted to the Verkhovna Rada of Ukraine in the near future.

*Reference: On 9 and 11 December 2014, similar legislative drafts were registered by MPs at the Verkhovna Rada of Ukraine. There are also amendments to the Budget Code identical to the legislative draft developed with Project participation.*

The adoption of these amendments will make it possible for the first time to resolve problem issues preventing the introduction of energy service contracts at the legislative level. This will give a great boost to the energy independence of Ukrainian cities.

**On 19 December 2014**, experts of the MFSI-II Project took part in a roundtable of the Resuscitation Reform Package (RRP) group to discuss the proposals to the Concept of implementation of energy service company (ESCO) mechanism. The meeting was attended by representatives of international organizations, law firms, leading energy efficiency experts, representatives of non-governmental organizations and others.

The main objective of the event was discussing the strategy of further work with the legislative drafts,

which regulate the possibilities for concluding energy service contracts, including those legislative drafts in whose development MFSI-II experts took part.

The meeting participants noted significant and fruitful efforts of preparing the legislative drafts undertaken with the Ministry of Regional Development, Construction, Municipal and Housing Services of Ukraine (MinRegion) and the State Energy Efficiency and Energy Saving Agency (Derzhenergoefektyvnosti): “On Amending the Law of Ukraine “On Energy Conservation” with Regard to Legal Foundations for Implementation of Energy Service Contracts,” “On Special Considerations in Energy Service Procurements,” and “On Amending the Budget Code of Ukraine (with Regard to Implementation of Energy Efficient Activities in Government-Funded Institutions).”

At the same time, similar legislative drafts have been registered at the Verkhovna Rada of Ukraine, which drafts are significantly repeating the provisions developed by the MinRegion and Derzhenergoefektyvnosti, however, contain a number of drawbacks. Therefore, a decision was made at the meeting to prepare comments and proposals to the registered legislative drafts, and also continue collaboration with the MinRegion and Derzhenergoefektyvnosti to finalize the legislative drafts developed by them.

The RRP experts are expected to participate in a meeting of the Verkhovna Rada Committee on Fuel and Energy Complex, Nuclear Policy, and Nuclear Safety to discuss the abovementioned registered legislative drafts on Wednesday, 24 December 2014.

Adoption of the developed legislative drafts will make it possible for government-funded institutions to conclude energy service contracts, which, in turn, will promote efficient use of energy in the public sector and reduced consumption of energy resources.

*Result: Preparation and organization of Financial-Economic Forum*

*Deliverable: Minutes of Financial-Economic Forum, agenda and recommendations of Forum participants*

*Timeline: February 2015, September 2015*

*Result: Preparation and organization of a National Advisory Board*

*Deliverable: Minutes of a National Advisory Board and agenda*

*Timeline: December 2014, March 2015, June 2015, August 2015*

**On 29 December 2014**, a regular meeting of the National Advisory Board (NAB) on efficient management of public finance was held. It was attended by the representatives of the Ministry of Finance of Ukraine, financial departments of municipal councils, academia, civil society and international experts.

During the session, the participants summed up the 2014 work on implementation of advanced budgeting methodologies and in particular PPB, peculiarities of formulation of local budgets for the next year, as well as IBSER’s performance results for 2014 and plans for 2015.

The participants highly appreciated operation of the MFSI-II Project in terms of improving the legislative and methodological framework of program performance budgeting in local budgets and supporting its implementation. They also highlighted the needed further support for PPB implementation and development at the level of local budgets and methodology improvement at the state budget level, in particular, with

**Meeting of the National Advisory Board (NAB) on efficient management of public finance, 29 December 2014**





participation of MFSI-II experts in this lengthy process. Moreover, they noted that with the current shortage of budget resources special attention should be paid to the budget spending efficiency and performance assessment.

See folder “Deliverables.”

*Result/Deliverable: Regular updating of IBSER website with information regarding project activities*

*Timeline: Ongoing process*

The MFSI-II website is updated on a regular basis with information regarding MFSI-II project activities in Kyiv and in the regions (Ukrainian, Russian and English pages). In particular, the following sections:

News:

all news and events where MFSI-II Project experts participated in the period of October – December 2014 are placed on the site.

Research and Materials:

All MFSI-II project periodic publications (soft copies), prepared in the period October – December 2014, have been placed on the site in the Subsection – “Analytical materials” (in Ukrainian and English).

Useful References (subsections – Media about us; Our Partners).

All articles published in national and regional media in October – December 2014 have been monitored and converted into electronic version, placed on the site and updated on a regular basis (Ukrainian and English versions).

The IBSER Facebook page is updated and all news and photos from events and workshops were placed.

New set of questions in section “Answers by Experts” with experts answers related to the PPB section was regularly added to the website, the information was regularly updated.

The section of the Monitoring of Legislative Changes, which periodically covers the information regarding changes in the Ukrainian legislation, was updated.

*Result: Preparation of Electronic bulletin intended for the publication of news on project activities for electronic mailing to addressees in the database of IBSER partners*

*Deliverable: Electronic bulletin*

*Timeline: October 2014, January 2015, April 2015, July 2015*

One Bulletin issue (#43 July – September 2014) has been prepared in Ukrainian and English and e-mailed to more than 675 partners. It is also placed on the project website in the “E-Bulletin” section. Overall, ten Bulletins have been prepared since the launch of the MFSI-II Project.

See folder “Deliverables.”

*Result/Deliverable: Publication “Innovative Practices of Local Finance Management”*

*Timeline: March 2015*

*Result: Support the holding of separate information public events in partner cities*

*Deliverable: The report on implementation of information public events in localities prepared*

*Timeline: February 2015, August 2015*

***Result:** Delivery of training on budget issues for NGOs*

***Deliverable:** Report on the number of trainings held and the number of participants attending the trainings with a breakdown by gender*

***Timeline:** January – March 2015*

**On 19 December 2014**, MFSI-II experts delivered a training for representatives of nongovernmental organizations. The training was attended by 26 representatives of youth NGOs from the city of Mykolaiv.

Young people in Ukraine have very limited knowledge about either the budget process or the reforms launched in Ukraine. This impairs the level of their participation in both in the formulation of local budgets, and control over efficient use of budget funds.

To engage youth in the budget process, the MFSI-II experts have introduced the training participants to the basics of budget legislation, and the problem issues in the performance of local budgets. Special focus was made on discussing the budgetary and financial decentralization and its implications for budgets at all levels.

A proactive participation of the public will increase the efficiency of budget spending, significantly improve the budget process transparency, and help reduce corrupt practices.

**Training "About the Budget in Plain Language"  
City of Mykolaiv, 19 December 2014**



See folder "Deliverables."